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EDITORIAL

As We See It

In the February issue of the "Survey of Current Business," the Department of Commerce has presented several arrays of figures which are well worth the study of all who wish to know just what has been happening in business during the past year or two, and to form a sound judgment about where we stand at this time. These data are particularly pertinent at a time when leaders of labor and a number of politicians who value the so-called labor vote are trying to convince us all that the cause of the current recession is to be found in a disproportionately small part of current production paid to labor and a correspondingly large part retained by corporations as profit. They are particularly important just now because they show so conclusively that there is not a grain of truth in this notion. They should once and for all put an end to demands for higher wages at the present time—and most certainly to all such proposals as that of Mr. Reuther that a substantial part of the profits of employers be drawn off and paid over to wage earners.

It is doubtful if any two recessions or depressions are ever precisely alike. Some of the ablest economists in this and other countries have endeavored for many years, and in vain, to determine precisely what does cause the ups and downs in business, usually termed the business cycle. In fact, one of the ablest of them spent a large part of his life trying to determine just what happens in the so-called cycle. His contribution was large but his facts were far from complete. It would be a task requiring a great deal more space than is available here even to list the factors, or combinations of factors, various au-

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Current Outlook for Business And Industrial Relations

By DR. SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

One of America's best known economists, mindful of his earlier prediction gone wrong, foresees first quarter of 1958 marking recession's bottom followed by slightly larger G. N. P. in succeeding quarter, and criticizes Administration's failure to take prompt anti-recession steps. Dr. Slichter denies we are suffering from excess capacity, in terms of projected growth trend; notes expanding sectors of the economy are two and one-half times as large as contracting parts; and concludes wages will continue to outstrip productivity necessitating a slowly rising price level to maintain full employment.

I. The Current Recession in Business

A year ago I predicted that the lull in business would last until about the middle of the year, and that it would be followed by slow expansion. I predicted that the last quarter of 1957 would be the best quarter of the year. The lull lasted about as long as I suggested, but it was followed by contraction rather than by expansion. The last quarter, instead of being the best quarter of the year, was the worst. Production dropped from an annual rate of $440 billion in the third quarter to about $432.6 billion in the fourth. This sharp drop of $7.4 billion a year was almost as large as the drop of $8.8 billion a year between the third and fourth quarters of 1953 — which was the largest quarter-to-quarter decrease since the end of 1945. In the present quarter production is at the annual rate of about $429 billion—a drop of less than $4 billion below the last

Sumner H. Slichter

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*An address by Dr. Slichter before the Annual Meeting of the Associated Industries of Cleveland, Cleveland, Ohio, March 3, 1958.

"Why Puerto Rico"

By TEODORO MOSCOSO

Administrator, Economic Development Administration San Juan, Puerto Rico

Mr. Moscoso attributes success of Puerto Rico's "Operation Bootstrap" to: tax policy allowing attractive sales and investment profits; use of limited government spending as a catalyst; advantageous relations with USA; and helpful services provided the investor. Commonwealth's economic coordinator describes past decade's startling growth wherein private investment multiplied 140-fold with only a four-fold government investment increase; notes most manufacturing is for USA market and that Latin America offers potential future market; and sees this program as solution to backward countries' problems.

Only a few months ago, the First National City Bank of New York decided to prepare an advertisement on Puerto Rico and its opportunities for business.

The First National has a main office and eight branches in Puerto Rico. Some wags say they established them to nab our migrants' bank accounts before they leave for New York.

At any rate, the theme of the ad was that our Commonwealth is now a half billion dollar market for goods from the United States. That, by the way, makes Puerto Rico the seventh largest consumer of U. S. merchandise in the world, and, together with Canada, far above the others in per capita purchases.

Now, National City Bank has excellent economists and a good advertising agency. But Puerto Rico's growth proved too fast for them. Before this advertisement came off the presses, the Commonwealth's purchases of United States goods had increased to more than $100,000,000 to a total of over $600,000,000: I don't

Teodoro Moscoso

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*An address by Mr. Moscoso before the briefing conference on "Doing Business in Puerto Rico" sponsored by Bureau of National Affairs of Washington, D. C., New York City, Feb. 6, 1958.

SECURITIES NOW IN REGISTRATION—Underwriters, dealers and investors in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 38.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

WALTER K. GUTMAN
Research Analyst, New York City

Washington Steel Corp.

A research analyst for a large brokerage house is likely to have a "security he likes best" at least twice a week. If you write a weekly market letter, the way I do, you develop a newsman's feeling that your public wants to hear something new—so even if you should be faithful to certain stock and sometimes this is a good idea — until death threatens to intervene — you allow your eyes to wander. Washington Steel Corporation at less than 20 is certainly one of my loves among the stocks. I think there are good reasons for thinking it will go back to its old high which was 33 and that it will have the opportunity to go a lot higher than that. This won't be next month, but might be sometime in the next year or two years.

Walter K. Gutman

The reason is that Washington Steel is earning money now—I figure at an annual rate of $1.50 a share—even though operations are very low—about 40% of capacity. At full capacity it could earn in the range of $5-$6-$7. Washington Steel has never earned this, its top was $3.39 in 1955 but it has never been able to fully use the capacity it now has.

Washington Steel specializes in rolling stainless steel bands into finished sheets. It buys hot bands from various suppliers and puts them through its Sendzimir mills and turns out extremely fine finished sheets. Washington Steel rolls to a plus or minus gauge tolerance of 3%, whereas the standard allowed variation is as high as 10%. This is of considerable practical importance since stainless is sold by the pound. If a mill rolls thick, but within the allowed tolerance, the customer pays for steel he doesn't need. In ordinary steels this doesn't matter too much, but stainless is expensive. Ability to guarantee a much closer tolerance has helped Washington Steel sell steel.

Washington Steel was the first company to roll stainless on a Sendzimir. Before that it had been a minor factor in the tin plate business with run down plants located about 40 miles from Pittsburgh in the direction of Wheeling, West Virginia. A group headed by young Tom Fitch took it over in 1945, put in a small Sendzimer mill and revolutionized this branch of the industry. Now most competitors have put in Sendzimirs also, but Washington Steel's consistently maintained high standards and specialization in stainless sheet give it a forceful sales position. Washington Steel is believed to be the only supplier of the type of stainless sheet used in the Atlas missile—this is a complement of some though probably not huge economic importance.

As the largest single buyer of stainless hot bands, Washington Steel is in a good position currently to purchase the semi-finished steel it needs and since it has a small labor force per dollar of product turned out, its break-even point is low. In 1956 it brought into operation a large Sendzimir and now has a rolling capacity of about 3,600 tons a month. However, it has never come near using this because when the mill first operated there was a shortage of nickel which in turn made it impossible to supply all the stainless the customers wanted and when the nickel shortage ended, demand for stainless dribbled off too. Investors will have to wait for the next boom to see just what the company can actually do, although $7 a share is not an unreasonable estimate. At under 20, the stock looks extremely interesting. The September 30th balance sheet showed $9.7 million of current assets against $2.4 million of current liabilities. Long term debt was $1.5 million. There were 16,719 of $100 convertible preferred and 595,661 common shares. The 25c quarterly dividend looks safe—what 1958 earnings will actually turn out to be, of course, depends on how fast the nation comes out of its slump, but $2 a share seems possible in Washington's September fiscal year even though the company will take a substantial non-recurring write-off in a nickel contract incurred when the metal was scarce but had to be had to stay in business. $1.50 a share would be a more conservative estimate but I am more optimistic than most regarding an industrial pickup. The total package of current recession grade earning power, future possibilities, highly capable and likeable management and the possibilities for future development that such management implies looks attractive to me. The stock is traded in the Over-the-Counter Market.

BELMONT TOWBIN
Partner, C. E. Unterberg, Towbin Co., New York City

Machlett Laboratories, Inc.

The so-called "electronics" industry is obviously glamorous and will undoubtedly make great strides during the next five years and thereafter. However, "electronics" covers a wide variety of products and companies. One important common financial characteristic of the industry is that research and development expenses on the part of the successful companies must be *substantial and continuous*. If development costs are borne by the government, future manufacturing profit margins will be low. If borne by the company itself, the profit margins and volume of its established product lines must be large enough to support such research and development. In Machlett we have this latter type company.

Belmont Towbin

I have selected Machlett as "the security I like best" because:

(a) The company's business is largely commercial (about 70%) and its military business (about 30%) is on essential programs in which there is little likelihood of cutbacks.

(b) As the leading world manufacturer of x-ray tubes and an important manufacturer of specialized electronic tubes, Machlett Laboratories is uniquely situated to participate in the growth of the "electronics" industry. Machlett is truly an advanced specialist in the core of the industry, namely, the electron tube. The responsibilities of Machlett's specialization are several, for upon the successful performance of Machlett products depend important segments of our national life and economy: health, communications, navigation, broadcasting, industry and defense. Over-simplified, the areas covered by the company's activities are:

Industry

Tubes for Induction and Dielectric Heating: for High Voltage Rectification; for Industrial Radiography and Thickness Gauging for Process Control and Material Analysis; for Industrial Television.

Medicine

Tubes for Diagnostic Radiography: for Therapy; for Medical Research.

Broadcasting

Tubes for Medium and High Power AM-FM-TV Transmitters: for The Voice of America and Radio Free Europe; for Pick-up Tubes for TV Cameras.

National Defense

Tubes for the Continental Defense Program: for Radar—Sonar —Military Communication; for Missile and Anti-Missile Defense.

Communications and Air Navigation

Tubes for Two-Way Land Mobile Microwave Relaying: for High Power Long Distant Communication; for Overseas Toll Radio Telephony; for Closed Circuit TV; for Aerial Navigation and Flight Control.

(c) For the past three years the company has been engaged in an ambitious expansion program in the field of "Photo Sensitive" and "Storage" tube types. Such tubes include the "Orthicon" and "Vidicon" types used in broadcasting and industrial television pick up cameras and "Character Presentation" types such as the "Scriptron" used in the "SAGE" Continental Defense System.

During 1955, 1956 and 1957 a new plant of 30,000 square feet was constructed, equipped and started on its "shake-down" process. The burden of these large capital expenditures, "break-in" costs, plus engineering and development expenses charged to current operations, have all adversely affected reported earnings per share and profit margins during these years. The full effect of the "expansion program" probably will not be reflected until 1959. Despite the heavy charges, 1957 results will be reported as the second best in the company's 23 year history and the outlook for 1958 and 1959 is for substantial improvement.

In my judgment, the investor (shares currently quoted at 14) analyzing the Machlett record two years from now, namely, early in 1960, might be reviewing the following statistical record:

	Sales	Earnings	Profit Margins	Earnings per Share Based on 588,000 shs.	Market Range
1956	8,000,000	293,000	3.7%	$ .50	16-12
1957	10,000,000	400,000	4.0	.68	18-11
1958	12,500,000	750,000	6.0	1.25	20-12
1959	16,000,000	1,000,000	7.0	1.75	35-20

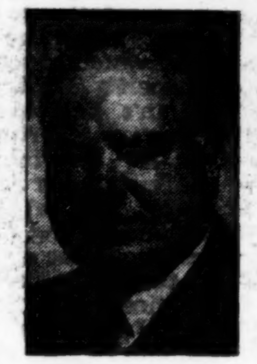
This Week's Forum Participants and Their Selections

Some Observations on Business Slumps and Recessions

By HON. HERBERT HOOVER*
Former President of the United States
Chairman, Commissions on Organization of the Government

Humorously absolving himself from charges of being capable of creating a world-wide depression, ex-President Hoover terms current recession a "minor slump," finds no cyclonic economic interferences to interrupt our recovery — which he says was the case in the last depression, and prescribes a program to avert inflation and speed recovery. Mr. Hoover lays particular stress against reducing taxes without corresponding reductions in government spending, and claims budget cuts can be made without injuring national defense or essential services if Hoover Commission recommendations are put into effect.

Aside from Communists, Defense, Sputniks, Explorers, and missiles, the major conversation in the country is on this minor slump in business and employment. The debate is largely on where, when and how we will get out of this hole or whether our activities will dig it deeper. In joining this discussion I shall be hopeful and friendly and throw no dead cats.



Herbert Hoover

Our country has invented a special nomenclature to describe the stages of this sort of misfortune. We use the terms business dip, slump, readjustment, recession and depression. If we use the terms dip, slump, readjustment, or recession, it makes the business world and the unemployed feel better. The term depression carries reminiscent terror.

Just for your comfort I may mention that even as a partly free economic system proceeds down the highway of progress it occasionally bursts into a joyride of excessive speed. Then a tire leaks and we have a bump. The spectators engage in extreme pessimism. In terms of time the bumps come about every seven or 10 years. Seldom in our history have the bumps developed into a depression.

Expert on Depressions

And on the subject of depressions I may mention that once upon a time my political opponents honored me as possessing the fabulous intellectual and economic power by which I created a world-wide depression all by myself. At least I might claim from these tributes that I must know something about depressions.

In that great depression we were on our way out of a normal dip, slump, readjustment or recession, whichever term you prefer. But in the midst of our recovery we were struck by a cyclone from Europe. That was the result of the aftermaths of World War I, the Treaty of Versailles, and sequent follies in armaments, unbalanced budgets, inflation, and other governmental foolishness. They gave birth to a panic in most of Europe. In that panic practically every bank in Europe, including the Bank of England, ceased international payments. And those countries suspended buying our commodities.

With my acknowledged expert qualifications I have looked over the world, and I may say that there are no such economic cyclones being hatched today—provided of course we keep our great enemy intimidated from making a war.

There are some lessons that can be had from our own and the world's experiences and vicissitudes with booms and slumps.

Lesson of Inflation

The first lesson is that a people by their own actions can get themselves into considerable trouble. That can be done by the route of inflation.

We by devaluation and the expenses of World War II have reduced the purchasing power of the dollar by about 50%. Then inflation was stopped for a while. But it has struck again. That is the result of pressure groups creating excessive expenditures and irresponsible action in the operations of our productive facilities.

In the last 21 months inflation has cut the purchasing value of the dollar about $70 from every income and pension of $1,000. If we want to stop it and at the same time stop this recession in its tracks, we need some homework in the industrial world.

Stopping Recession

First, we have no wave of wage and fringe rises. This is not a new idea. I might remind you that labor and employers made and loyally carried out such an agreement for three years beginning in 1929. It was a great contribution to the recovery we had started before the cyclone.

Second, there should be no lifting of prices by industry.

There are some old and proved wonder drugs useful both to prevent inflation and to speed recovery from recessions. The most useful of these economic wonder

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*An address by Mr. Hoover before the New York Chamber of Commerce, New York City, Feb. 27, 1958.

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Financial and Other Facilities Available to Puerto Rican Industry

By DR. RAFAEL PICO*

President, Government Development Bank for Puerto Rico

Financial and other facilities available to encourage private enterprise development in Puerto Rico are outlined by Dr. Pico in explaining the purposes of the island's Government Development Bank and Industrial Development Company.

A pool of official resources of more than $100 million helps to finance industrial and other development enterprises in Puerto Rico. These resources are largely committed, but the part in liquid funds makes it possible for the Commonwealth Government to continue giving support to sound new projects when financial accommodations are not available elsewhere. Furthermore, the investments are of a revolving character so that the financial operation can continue as the Puerto Rican economy progresses.

Dr. Rafael Pico

The Development Bank

The Government Development Bank, with total assets of $66.8 million at the end of 1957, was created in 1942. Its principal purposes are to assist the financing of private industries and to arrange, as fiscal agent, the short-term and long-term borrowings for the Commonwealth, its authorities and municipalities.

The capital of the Bank plus reinvested earnings now exceeds $30 million. A second major source of funds is about $20 million of deposits of the Puerto Rican Government and its instrumentalities. To provide additional resources, the Bank borrowed $15 million in 1957 through general obligation notes to mature annually in the next five years. These notes met with a very favorable response when they were offered to a number of banks in the continental United States and Puerto Rico.

Fiscal Agency Function

As fiscal agent, the Bank plans, coordinates, and executes the borrowing of public agencies. On occasion it lends directly to these agencies, although for the most part it arranges financing from other sources. The total of all the financial arrangements completed by the Bank from 1945 to the present is more than $600 million. This assures financing for the basic services such as highways, ports, water, electricity and schools, essential to economic growth.

Loans by Bank

Loans made to business and other private borrowers made by the Development Bank have exceeded $60 million from 1942 through 1957. This includes $25 million of housing loans which helped to get the ball rolling in large FHA projects in the late 1940's. Of the business loans, which in total have surpassed $35 million, three-fourths have been for manufacturing firms and industrial buildings. The largest loan was $4 million and the smallest only $300.

One of the loan principles which the Bank follows is to lend only when normal sources of financing are not available. The Bank invites banks, insurance companies and other lenders to participate in its loans whenever possible, and the loans in its portfolio are available for sale at any time. Although the Bank by its charter must give a preference for manufacturing enterprises, it also has made loans for office buildings, shopping centers, tourists hotels and restaurants, and other purposes.

The use of the loan funds is quite flexible. It broadly is for expansion of operations or the initiation of a new enterprise. The loans may finance machinery, buildings or working capital. The maturity, depending largely on the purpose, can run from 5 to as high as 10 years.

At present, the interest rate charged by the Bank (following general levels of rates) is 6½% for industrial loans and 7½% for commercial loans. Collateral is required, and loans are made only to 50% of the appraised value of machinery and equipment or 60% of the value of real estate. Repayment is made on regular amortization, usually monthly, and the Bank requires a number of standard clauses to protect itself and the public interest, as well as to improve marketability of the paper.

PRIDCO Assistance

Puerto Rico also offers facilities to industrialists in the Puerto Rico Industrial Development Company. The principal PRIDCO assistance to industrial enterprises is its building program, under which 224 factory buildings with a total value of $42 million had been constructed up to June 30, 1957.

A supply of standard PRIDCO buildings of 6,000, 12,000 and 20,000 square feet is always available, ready to be occupied. Rentals range from 50 cents to 95 cents per square foot, depending on the location and design of the building, and leases are offered for a 10-year period. This helps industrial firms which do not wish to tie up their capital in real estate but want to conserve their funds for machinery and working capital.

In addition PRIDCO builds special structures to order which are leased on negotiated terms, with the building being amortized over the period of the lease. In recent months PRIDCO has offered for sale a number of its buildings, and this program is expected to continue so that it will be able to turn over its capital more rapidly and continue to put up new buildings in advance of the demand.

Another operation of PRIDCO which is helpful to the new investor is aid in assembling land. It has authority to acquire, sell or lease industrial land. Its land acquisition policy is based upon the projected future requirements for factory sites.

PRIDCO Loans

PRIDCO loans, of which $2.6 million were outstanding at the end of 1957, are only granted to firms which are unable to get loans from commercial banks or the Government Development Bank. Generally these loans are secured by property or other collateral or are guaranteed by a co-signer or the parent company. The interest rate is usually in line with that charged by the Government Development Bank.

A final item of interest is the authority given to PRIDCO in 1955 to make minority equity investment or to purchase convertible securities. The policy is to make minority investments when its participation will assist in influencing others to invest. The total outstanding balance of minority investments by PRIDCO was $2.9 million at the end of 1957.

The portfolio of common stocks and convertible bonds or other securities will be available for sale to the public, after the enterprises have established their success. This in turn will contribute toward the creation of a general local capital market in Puerto Rico, to the benefit of all industrial operations.

*An address by Dr. Pico before the "Doing Business in Puerto Rico" briefing conference sponsored by Bureau of National Affairs of Washington, D. C., New York City, Feb. 6-7, 1958.

Foreign Aid and Trade— Crucial Issues of 1958

By A. WILFRED MAY*

Mr. May asserts recent Washington bipartisan meeting to promote the Foreign Aid Bill has highlighted problems in aid-trade area. Notes unwillingness frankly to face program's faults, as waste and duplication. Feels featuring of Aid Issue has confused public over importance and nature of the pending Trade Agreements legislation. Points to difficulties in educating the grass roots voting public; concluding that the real facts must be given to the people directly by the President.

The giant bipartisan pro-Foreign Aid mass-meeting staged in Washington, with Eric Johnston master-minding the public relations to the n-th degree under the Eisenhower aegis, has highlighted some of the interesting problems in this aid-trade area.

A. Wilfred May

While Mr. Johnston's show demonstrated Madison Avenue at its very best, it has strongly manifested the difficulties in selling the foreign help idea to the grass roots.

This is only partly due to the "recession" — when the plea for dam subsidy at home in lieu of diversion of the millions to Asia is accentuated. (As the London Economist puts it: "Congressmen are very conscious that a dam built in California brings votes, while one in the Middle East may not even bring thanks.")

Nor can the opposition be brushed off as merely "isolationist," "strackpot," or some other variety of "ornery" Congressman. Instead, the "pro-Aiders" might well fill the vacuum shown elsewhere as well as at the Washington jamboree in failing to recognize justified criticism of past waste in the $60-plus billions of our disbursements, with an "overhead" of 25 to 40%, since the end of World War Two.

Anti-Waste Affirmation Called For

Assurances should be given that there will be a hard-headed re-examination of waste; including avoidance of duplication of contributions through the United Nations machinery, as in "technical assistance" and the special Projects Fund. SUNFED and the International Development Fund embody two typical proposals for more of such overlapping joint spending. These camouflaged give-away stunts are now superseded by the so-called "Monroney Bank," Senator A. S. Mike Monroney's brain-child for extending so-called "loans," involving uneconomic interest rates, unbusiness-like risks—along with repayment in local currencies, via disguised subsidization always shunned by Mr. Eugene Black's sound policies in administering the $3,500 million World Bank. Would it not actually promote public confidence in our whole foreign economic policy if this project were more realistically referred to as another Aid vehicle?

And wouldn't more realism about the program's effects to date pay off? On his return from Asia, Henry Cabot Lodge, our Chief representative to the UN this week saw fit to tell the press that "India is advancing toward democratic prosperity." This in the face of the Indian's bombardment of Under Secretary Herter and his colleagues for the so desperately needed support moneys.

Also helpful to the Madison Avenue selling of the Aid "product" would be a greater embracing of the grass roots approach. So rarefied was the atmosphere at Mr. Johnston's Washington assemblage that identification of .385-hitter "Stan-the-Man" Musial completely stumped the sponsors when it became his turn to be introduced (presumably his former fellow St. Louisan and Gashouse Gang rooter, Harry Truman, was out of the hall).

The "Hard-er Selling" of Trade

But even more difficult to sell is the need for international *trade*, which doesn't enjoy the obvious sanctity of the pleas for Aid. Furthermore the trade promotion endeavor is definitely hindered by the hand-out agitation. In the first place, the concentration of the official show on aid enhanced the public's ignorance of the prior importance of trade and the interacting effect of the two, as well as furthering the public's disinterest in the latter.

Recession Steps Up Importance

The public should be made to realize that in contrast to the shot-in-the-arm of Aid, material exports provide the real bases of wealth abroad as well as at home. This is particularly important at a time of "recession-depression." The reciprocal trade policy was initiated by Secretary Hull during the depressed early 'thirties. Particularly at such times of business decline will other nations, worried over their dollar exchange reserves, act to reduce our exports to them. Already Britain's Prime Minister Macmillan is reported to be planning export subsidies or a call on the International Monetary Fund—either of which would be vastly more costly to us than the acceptance of imports.

The public does not realize that four and a half million of our workers are engaged in employ-

*Excerpts from Mr. May's remarks on broadcast Foreign Affairs Round Table, (Christopher Emmett, Moderator) Station WEVD, New York City, Feb. 28, 1958.

ment depending on export trade—contrasted with only 400,000 that could be affected by an inflow of competing tariff-reduced goods. Industries importantly dependent on their exports include coal mining (with 10% exported abroad), construction and mining equipment (one-sixth to one-fifth), agricultural equipment, raw cotton, and even textiles where more is actually exported than imported.

How Educate the Public?

To bring about public realization of this simple situation — the dependence of our vitally important export industries on imports —vocalization is needed. Such dissemination of the realities should be stepped up to a scale at least some way comparable to that engaged in for their self-interest by the well organized "high-tariff boys." It seems that more could be done by organizations like the National Foreign Trade Council. Top business figures should be on the air, getting good and mad with slogans, as perhaps "*Protect* our $20 billions of exports," in lieu of platitudinous lip service. Too often such individuals give the impression their interests are divided.

Whereas the voter can see the threatening imported object; recognition of the fact that it is necessary to import in order to export involves the difficulty of a conceptual reaction.

It seems to me that in the last analysis, the obstruction to education from over-slickness, from obscurity, from aloofness above the grass roots, and otherwise, can best be overcome by the President himself giving the facts directly to the people. And this is far more vital to the well-being of this country and the world at large than are his efforts pro-Aid!

Gene W. Fenton Joins Neuberger & Berman

Gene W. Fenton has become associated with Neuberger & Berman, 120 Broadway, New York City. Mr. Fenton was formerly with Cosgrove, Whitehead & Gammack and Dreyfus & Co.

N. Y. Dept. of Commerce Opens D. C. Office

The New York State Department of Commerce has opened an office at 1026 Seventeenth Street, Northwest, Washington, D. C., to assist New York businessmen in their commercial and industrial activities involving the Federal Government.

H. Seelig, Asst. V.-P. Of N. Y. Hanseatic

The New York Hanseatic Corporation, 120 Broadway, New York City, investment firm, has announced the appointment of Henry W. Seelig as assistant vice president.

Two With Henry Montor

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Herman Kaplan and Joseph C. Patis have become connected with Henry Montor Associates, Inc., 134 South La Salle Street. Mr. Kaplan was previously with Arthur M. Krensky & Co., Inc.

Joins Murch Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Burton G. Davis has become connected with Murch & Co., Inc., Hanna Building, members of the New York Stock Exchange. Mr. Davis was previously with Edward N. Siegler & Co.

Puerto Rico—Island Workshop And Holiday Haven of Caribbean

By DR. IRA U. COBLEIGH

Enterprise Economist

Outlining the progress and prosperity of Puerto Rico and the favorable climate it offers for business and investment.

Puerto Rico is a rectangular semi-tropical isle about two-thirds as large as Connecticut. In five swift airplane hours, you can reach it from New York; and your plane doesn't set down in any hayfield clearing, but at a modern, functional, $20 million facility—the Isla Verde Airport of San Juan, that serves 16 airlines and would compare favorably with any air terminal, anywhere. If, instead of flying, you'd prefer water travel, there are eight steamship lines serving Puerto Rico to choose from.

Ira U. Cobleigh

When you arrive at this verdant isle, at the Cross Roads of the Caribbean, you will be immediately impressed by the mild ingratiating climate, averaging from 75 to 85 degrees the year around. (There was quite a migration of sun-seekers from Miami to Puerto Rico in the past 60 days.) Elegant up-to-date hotels invite you to be their guest—the Caribe Hilton, completed in 1949, at a cost of $7,200,000; two other 300-room hotels; and a smaller one with an adjoining 18-hole golf course. Visitors have plenty of diversion to choose from. There are baseball parks featuring local teams, and major leaguers in winter exhibitions. Boxing is popular and cock fighting under Government supervision in arenas called "galleras." There is horse racing, off-shore game fishing; plus night clubs and gambling casinos for those with substantial, albeit expendable, funds. Over 200,000 tourists will spend some $30 million in Puerto Rico in 1958.

But tourism, though important, is not the economic mainstay of this bustling Caribbean oasis. The leading city, San Juan, is an energetic, modern metropolis of 600,000 which spark-plugs a quite remarkable industrial development —a development that has swelled the factory count from a paltry 21 in 1945, to 504 at the 1957 year-end.

This dramatic growth rate was neither spontaneous nor accidental. It was carefully planned. During the Depression, Puerto Rico was in really bad shape. The population grew but employment didn't; and the economy was hamstrung by dependence on a single crop—sugar. Something had to be done. An Economic Development Administration was created in 1942 and in 1947 the now famous Operation Bootstrap was inaugurated. This was an over-all master program designed to induce industry to locate in Puerto Rico, and by greatly expanding industrial employment to raise the living standards, and generate prosperity for the island population. There was also a collateral program for the diversification of agricultural products. Among the inducements to attract mainland industries was a generous tax exemption arrangement. Under Commonwealth Law, a corporation could be given Federal (U. S.) tax exemption for 10 years, and a corporation was allowed to set plant depreciation at any annual rate it desired. And, since 1950, Federal and corporate and individual income taxes have not been in force.

Partly by virtue of these inducements, and especially due to the aggressiveness and zeal with which Operation Bootstrap has been implemented under the guidance of Governor Luis Munoz Marin, the results have been quite amazing. 60% of a total labor force of 650,000 works the year 'round and per capita income ($443 for 1957) is larger than in any other Latin American country except Venezuela. National income has risen from a little over $200 million in 1940 to above $1 billion in 1957. Divisions of such distinguished American companies as General Electric, St. Regis Paper, Sylvania, Remington Rand, Gulf Oil, Paper Mate (pens), American Can and Union Carbide have now located on the island. (Only this week, Beaunit Mills announced plans for a Puerto Rico plant.) All this industrial output is in addition to expanded native production in rum, molasses, cement, glass, sugar, tobacco and traditional handicraft items. Assessed property valuations in Puerto Rico are now well over $1 billion; and Puerto Rico is a $600 million a year customer of the U. S.

Thus a critical problem of the island, namely what to do about its seething population of over 2¼ million (663 to the square mile in 1956) is being solved, to an important extent. Rising income brings in its train better housing, and living conditions ($6,000-$8,000 homes have been financed mainly by a Rockefeller-backed company, "IBEC"). In 1957 over $66 million (out of total commonwealth outlays of $230 million) was spent on education.

Integral to the entire economic life of the island is the Puerto Rico Water Resources Authority, a public corporation and a government instrumentality created to conserve, develop and utilize the water and power resources of Puerto Rico, and to promote the general welfare of the Commonwealth. It is a huge $250 million corporation that produces, transmits, distributes and sells over 99% of the electricity consumed in Puerto Rico. It operates 19 hydro-electric, four steam generating stations with a total installed capacity rating of more than 300,000 kw. It serves more than 325,000 customers.

In common with all electric utilities serving growing areas, the Authority has recurrent needs for capital to expand generating, transmission and distributing facilities. The bonds which the Authority publicly sells, to finance these expansions, as obligations of an instrumentality of the Commonwealth of Puerto Rico, are especially attractive to high-bracket American investors. They are completely exempt from U. S. Federal and state income taxes. They are also legal investments for Savings Banks in New York State.

Utility bonds have long ranked among our choicest investments, and the Puerto Rican variety have been well received in the American market not only because they draw directly on electric revenues, but because of the notable record of Puerto Rico for financial integrity. There is no record of any default on a Puerto Rican obligation. Moreover, current yields are attractive. The recent $25,000,000 issue of Puerto Rico Water Resources Authority Bonds, offered by a New York syndicate, provided yields from 2.60% on the 1960 maturity, to 4.12% on the 1995 maturity.

(The Authority's function does not include the supply of commercial and domestic water. This is the responsibility of a sister unit, the Puerto Rico Aqueduct and Sewer Authority which also develops and operates sanitary sewage systems throughout Puerto Rico.)

In the non-tax-exempt area marketable securities representing Puerto Rican enterprise are not too numerous, except through share purchase in companies cited above, with branches on the island. There are, however, South Puerto Rico Sugar Co., Porto Rico Telephone Company, Commonwealth Refining Co., whose shares are publicly held and traded, and, of course, First National City Bank of New York, the major banking agency, with nine branches on Puerto Rico. A new, American financed, life insurance company, International Life Insurance Co. of the Americas is reported to be rapidly expanding its sales on the island.

The bonds of the Authorities, and the equally tax-exempt obligations of the Commonwealth itself, plus some of the equities alluded to above, provide worthy outlets for investible funds in Puerto Rico today; and the investment horizon there should prove bigger and broader as time goes on.

It would be difficult, in so short a space, to outline all those elements of progress—industrial, commercial, cultural and educational—the modern highways, excellent port facilities and functional housing that are giving Puerto Rico a new look. We would like, however, to salute this Caribbean Commonwealth and to honor its industrial vitality and political integrity. It has achieved almost a miracle in the past decade, and offers today both an economic and meteorological climate which compares favorably with most of its Latin neighbors.

Frank G. Plaisted Joins Blyth on Coast

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Frank G. Plaisted has become associated with Blyth & Co., Inc., Russ Building. Mr. Plaisted was formerly associated with William R. Staats & Co.

Now With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Lazare Z. Felsher is now connected with Bache & Co., 140 South Dearborn Street. He was previously with Cruttenden, Podesta & Co.

Hornblower & Weeks Add

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Harold F. Fillmore has been added to the staff of Hornblower & Weeks, 134 South La Salle Street. He was formerly with Dean Witter & Co. and Central Republic Company.

The Consequences for Investors Under Puerto Rican Law

By HARRY RUDICK*
Lord, Day and Lord, New York City

Tax expert describes Puerto Rico's tax structure, ten-year income and withholding tax exemption program under Industrial Incentive Act of 1954 for corporate and individual investors, and correlates this with U. S. A. taxes to give ultimate tax position. Mr. Rudick appraises the relative merits of three different corporate forms of investment (i.e., Puerto Rico, Western Hemisphere and Section 931), and investments by individuals residing in U. S. A. or in Puerto Rico. Finds Exemption Program is not a gimmick and that proper tax planning offers unique opportunities to investors.

As a starting point a brief description of the Puerto Rican tax structure is in order. Generally, Puerto Rican income taxation follows the U. S. pattern. In fact, the Puerto Rican Income Tax Act of 1954 is an adaptation of the 1939 Internal Revenue Code. Gross income, deductions and the computation of taxable income follow generally the pattern with which we are familiar here. For business, the most important difference between the systems is the special provision on flexible depreciation. A taxpayer under Puerto Rican tax law may, at his option, write off all or any part of his investment in any real or personal property in Puerto Rico acquired by him after Dec. 31, 1954 for use in agriculture, construction or manufacturing. For the period of industrial tax exemption, this provision is of no consequence; but it could be important during the post-exemption period. Another major difference is that partnerships are taxed as corporations.

Harry J. Rudick

The corporate rates in Puerto Rico range from 21% on the first $25,000 of taxable income to a maximum of 36.75% on profits in excess of $133,000. The rates of tax imposed on individuals are lower than that in the United States—they vary from a low of 12½% to a maximum of about 83% on income in excess of $200,000. However, income splitting is not permitted so that in the middle brackets the tax burden on married couples is comparable to that imposed on the mainland.

In addition to the corporate income tax, a withholding tax of approximately 30% is imposed on dividends paid by a Puerto Rican corporation to shareholders not resident on the Island. This rate is reduced to 20% if the dividends are paid to citizens of the United States. (A corporation, incidentally, is not a citizen.)

The Industrial Incentive Act of 1954 has a two-fold effect on this pattern. It affects the profits of the business and the distribution of those profits. A corporation which qualifies under the Industrial Incentive Act of 1954 is exempt from income tax for a period of ten years. Furthermore, Puerto Rico exempts from the withholding tax certain types of distributions made by businesses exempt under the Act. First, dividends distributed by such a company within 15 years of the commencement of its operation paid out of the first seven years exempt profits are not subject to tax if paid either to persons residing in Puerto Rico or to persons not residing in Puerto Rico who are not obligated to pay tax elsewhere on income derived by them from Puerto Rico. The theory behind this last provision is that Puerto Rico does not wish to forego a tax which will not be a burden to a foreign investor. For example, if a mainland recipient of a dividend from a Puerto Rican company could credit the whole of the P. R. withholding tax against his mainland tax, it ordinarily makes little difference to him which jurisdiction collects the tax and under such circumstances, P. R. feels that its Treasury rather than the mainland's should collect the tax.

Secondly, no tax is imposed on the complete liquidation of an exempt Puerto Rican corporation if liquidated prior to the termination of the exemption. Finally, no gain or loss is recognized on the sale of shares of a tax-exempt corporation if sold on or before the termination of the exemption. On a sale after the termination of the exemption, only the amount of the shareholder's gain attributable to the period subsequent to the exemption is taxed.

The correlation of this Puerto Rican pattern with United States taxation depends in the first instance on whether the investment in Puerto Rico is to be made by a corporation or by an individual. First, let us consider the problems faced by a corporate investor.

Corporate Investor's Problem

The burden of United States taxation on a corporate investor establishing a plant under the Industrial Incentive Act of 1954 depends essentially upon the corporate form of organization adopted for the Puerto Rican enterprise. Under United States tax law, a Puerto Rican corporation is a foreign corporation. As such, the United States does not tax the income earned by a Puerto Rican corporation outside the United States. Thus, if a Puerto Rican corporation is used as the vehicle for the investment, no United States tax is imposed until the earnings are distributed by the subsidiary to its parent. When a dividend is distributed, the United States tax treatment is as follows: The whole of the dividend is subject to tax—the intercorporate dividend deduction permitted on receipt of dividends from a domestic corporation is not allowed. However, the United States corporation is allowed a foreign tax credit, that is, it may set off against the United States tax imposed on the dividend any Puerto Rican taxes paid or deemed to have been paid by it. Since in this situation the subsidiary would have paid no Puerto Rican tax, the only tax for which credit could be claimed would be the withholding tax on dividends. The net return to a corporate investor on the portion of earnings distributed as a dividend would, hence, be the same as on income earned in the United States. To illustrate, if a Puerto Rican corporation earned $100 and paid that $100 as a dividend to the parent, Puerto Rico would withhold a tax of about $30 on the dividend which the corporation could credit against its $52 United States tax on that income, leaving the corporation $48 net after Puerto Rican and United States income tax. As compared with direct operation of the parent in Puerto Rico, the only advantage under the exemption program would be that the United States tax would be deferred until such time as the Puerto Rican profits were distributed as a dividend to the parent company, and until that time the business would have the use of money that would otherwise have been paid out in taxes. On the other hand, if the Puerto Rican corporation were to be operated for the full exemption period and then liquidated, the result would be that the Puerto Rican profits would be received subject to only United States capital gains tax of 25%. Presumably, some Puerto Rico subsidiaries of mainland parents will be dissolved at the end of the exemption period to bring home the accumulated profits at a capital gains tax cost rather than the 52% cost and the business will thereafter be carried on as a branch of the parent, i.e., operated directly by it.

Western Hemisphere Trade Corporation

Two other domestic, corporate vehicles are available for an investment in Puerto Rico: One is a Western Hemisphere Trade Corporation and the other is a corporation qualifying under Section 931 of the 1954 Code. A Western Hemisphere Trade Corporation is a domestic corporation which meets the following tests:

(1) Ninety-five percent or more of its gross income is derived from sources outside the United States;

(2) Ninety percent or more of its income is derived from the active conduct of a trade or business, and

(3) All of its business, other than incidental purchases, is done in the countries of the Western Hemisphere, or more accurately, North, Central and South America, and the West Indies. Such a corporation receives a special deduction which results in a maximum United States tax burden of 38%, 14 points lower than the general tax rate.

If a Western Hemisphere Trade Corporation were used for an investment in Puerto Rico, a current United States tax of 38% would be imposed. In addition, tax would be imposed at the rate of 7.8% on dividends paid by the Western Hemisphere Trade Corporation to its United States corporate parent. A major roadblock to the use of a Western Hemisphere Trade Corporation is that under Puerto Rican tax law the 30% withholding tax would be imposed on that part of its dividend distributions which was considered to be derived from Puerto Rican sources. Since the parent company pays only a 7.8% U. S. tax on the dividend, it can't absorb the remainder of the Puerto Rican dividend tax as a credit, and the result is that the overall tax burden becomes approximately 57%. Another potential objection to a Western Hemisphere Trade Corporation is that it may be subject to the penalty tax on unreasonable accumulations of income.

Section 931 Corporation

The second United States corporate vehicle is a corporation which qualifies under Section 931. That section provides that a domestic corporation which derives 80% or more of its gross income from sources within a possession of the United States and 50% or more of its gross income from the active conduct of a trade or business, is subject to United States tax only on that part of its income which is derived from United States sources. For some reason, payments actually received in the U. S. are included in gross income regardless of the source from which derived. It is therefore important, if a Sec. 931 corporation is used, to see to it that the income is actually received in Puerto Rico. However, once received in Puerto Rico, it may be transferred immediately to a mainland depository. Parenthetically, Puetro Rico is a commonwealth rather than a possession but the Code defines "possession" to include the Commonwealth of Puerto Rico. In effect, a Sec. 931 corporation is treated generally, but not for all purposes, as a foreign corporation even though incorporated under United States law; and a dividend received from such a corporation does not receive the benefit of the intercorporate dividend deduction generally allowable with respect to dividends received from a domestic corporation.

The major tax difference between a domestic corporation qualifying under Section 931 and a Puerto Rican corporation is that the former, being a domestic corporation, may be liquidated tax-free if the parent United States corporation owns at least 80% of its stock (other than non-voting stock limited and preferred as to dividends). Thus, if the profits of the Section 931 company are all accumulated, they can eventually be brought into the parent company free of all tax. The penalty tax on unreasonable accumulations would not be much of a threat for the reason that it is not applicable to income excluded from the definition of gross income and for a Section 931 corporation, income from Puerto Rico would be excluded.

Appraises Investment Vehicles

In attempting to appraise the relative merits of the three cor-

Continued on page 22

*An address by Mr. Rudick before the briefing Conference on "Doing Business in Puerto Rico," sponsored by Bureau of National Affairs, New York City, Feb. 6, 1958.

Duel of Nerves Commences as British Disinflation Continues

By PAUL EINZIG

"It is a war of nerves" between Britain's Conservative party and Labor movement, Dr. Einzig observes, now that the former realizes a victory over price inflation is necessary to win 1960 election and the latter is hoping that a recession will cause a reversal in policy. The British economist praises the government's resistance to inflation but disapproves refusal to impose some physical controls to provide labor with face-saving concessions. Writer weighs likelihood of flight of capital as general election draws near now that exchange restrictions were recently relaxed.

LONDON, Eng. — After all, Britain is not going to follow the American example of giving up the resistance to inflation for fear of a depression. Even though there are some moderate symptoms of a recession in Britain, too, the Government is determined to continue the credit squeeze and the other measures adopted to resist inflation.

Paul Einzig

This was made quite clear, during a debate in the House of Commons on unemployment, by Mr. Macleod, the Minister of Labor. "Half a dozen times since the war," he said, "we had lost the full benefits of courageous action because we went into reverse too soon. Now we have a better chance of achieving price stability than at any time since the war. It would be folly, and indeed worse than folly, to throw the chance away."

Considering that Mr. Mcleod is reputed to be in favor of the appeasement of labor, these firm words may be taken as conclusive evidence that the Government has no intention this time to call off the disinflationary measures unless and until they have produced their desired effects.

Firmness a Surprise

This display of firmness has taken the markets by surprise. It had been expected for some time that in view of the firmness of sterling, the reduction of interest rates in the United States and elsewhere, the increase of the gold reserve, and the steadiness of the price level during the past two months, the Government might yield the temptation of lowering the Bank rate. When it was raised to 7% in September very few people expected it to be still at that level in March. The continuation of the abnormally high interest rates is causing much discontent and is partly responsible for the unfavorable results of by-elections. Ever since January the announcement of a Bank rate reduction was expected every Thursday. Its anticipation was largely responsible for the rise in Government securities.

Mr. Macleod's statement has made it quite clear, however, that a Bank rate reduction is not imminent. As a result, there was a marked setback on the Stock Exchange. Paradoxically enough, even sterling was affected, although the continuation of dear money and tight credit should have been interpreted as a bull point rather than a bear point for sterling. For several days during the last week of February the tendency on the Stock Exchange and on the foreign exchange market was anything but favorable. Before the close of the week, however, dealers came to realize that, taking a long view, the Government's firm attitude is bound to produce a favorable effect on securities and on sterling. There was a sharp recovery, fully as inexplicable as the previous fall, on any ground other than on psychological grounds.

It now seems that the business recession in Britain would have to go much further than it has gone so far before the Government would be willing even to relax the disinflationary measures, let alone abandon them altogether. On the other hand, nor are there any indications of any willingness on the part of the trade unions to abondon their pressure for higher wages. The fight is assuming an increasingly political character. The Government is aware that the only thing that would restore its popularity among those who normally vote Conservative would be a victory over inflation through the achievement of a prolonged stability of prices before the general election. If the present attempt were abandoned there might be no time for another attempt before 1960. But for the same reason, the politically-minded trade unions are not prepared to cooperate with the Conservative Government in the effort to bring inflation to an end.

Duel of Nerves

It remains to be seen how both sides would react if the recession should become aggravated. Both sides hope that the other side is more afraid of large-scale unemployment. Both expect the other side to give way rather than risk a serious recession. It is a duel of nerves, the outcome of which is uncertain. When the United States Government decided to abandon resistance to inflation it was widely expected that the British Government would follow the lead. Judging by Mr. Macleod's speech, however, that is not the case, for the present at any rate.

The Government is not even prepared to facilitate retreat by the trade unions by making a few face-saving concessions. If the trade unions intended to give way their retreat would be greatly facilitated if the Government were prepared to agree to restoring some degree of physical controls, to meet the favorite trade unionist argument that if there is a "free-for-all" for capital there must be also a "free-for-all" for labor. Instead, the Government has just taken a step to relax further the remaining exchange restrictions. The Treasury has now removed the limit for the import of pound notes.

This means that pound notes formerly exported, legitimately or otherwise, can now be returned to the United Kingdom and used in the same way as sterling balances. It also means that the illicit export of pound notes as a means for evading exchange control will derive encouragement from the improved quotation of the notes in foreign markets and from the broadening of these markets.

Sees Flight of Capital

Curiously enough, this important step was allowed to pass without immediate protest by the Socialist Opposition. Yet it is arguable that the import of pound notes constitutes an additional item of invisible imports, and tends to weaken the balance of payments position. It also helps towards the transfer of British capital abroad in anticipation of a Socialist victory in 1960. There is a strong likelihood of a flight of British capital as the date of the general election will draw nearer, owing to the prospects of a change of Government.

The conception is gaining ground that it is no longer unpatriotic to salvage one's capital to the dollar area while the going is good. Those who feel this way argue that so long as the attitude of the trade unions is devoid of any public spirit and patriotism, it would be too much to expect capitalists to submit to the gradual erosion of their capital through non-stop inflation and the depreciation of Government loans. It is argued that capital exported out of the Socialists reach is salvaged for the national economy. Although this attitude is far from being general, it is likely to gain in popularity as and when it becomes obvious that the trade unions and the political wing of the Labor movement are determined to pursue their policy of ruthless plunder.

Dealer-Broker Investment Recommendations & Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Atomic Energy—Review—Harris, Upham & Co., 120 Broadway, New York 5, N. Y.

Atomic Letter (No. 35)—Analysis of fund investment in missile field—Atomic Development Securities Co., Inc., 1033 Thirtieth Street, N. W., Washington 7, D. C.

Burnham View — Monthly investment letter — Burnham and Company, 15 Broad Street, New York 5, N. Y. Also available is current **Foreign Letter.**

Candidates for Dividend Increases—List of companies in current issue of "Gleanings"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Copper Market—Discussion—Bache & Co., 36 Wall Street, New York 5, N. Y. Also available are bulletins on **Union Carbide Corporation** and **Raytheon Manufacturing.**

High Yield Stocks—Discussion of six issues—Zuckerman, Smith & Co., 61 Broadway, New York 6, N. Y.

Investment Lists—Lists of suggested stocks for income, growth, income and growth and high yield — Reynolds & Co., 120 Broadway, New York 5, N. Y.

Japanese Electrical Machinery Manufacturing Industry—Analysis in current issue of Nomura's Investors Beacon—Nomura Securities Co., Ltd., 61 Broadway, New York 6, N. Y. Also in the same issue are discussions of Japanese Shipping trade, and of the new five-year economic program

Japanese Stocks — Current information — Yamaichi Securities Company of New York, Inc., 111 Broadway, New York 7, New York.

Market Review—Analysis of opportunities for 1958—Harris, Upham & Co., 120 Broadway, New York 5, N. Y.

Oil Industry—Survey—With particular reference to **Imperial Oil, Ohio Oil, Phillips Petroleum, Socony Mobile, Standard Oil of Indiana** and **Sunray Mid Continent Oil**—Thomson & McKinnon, 11 Wall Street, New York 5, N. Y. Also available is a report on **Johns Manville Corp.**

Over-the-Counter Index — Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 19-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Package of American Earning Power—Booklet suggesting investment goals and how the package idea can help achieve them—Dean Witter & Co., 14 Wall Street, New York 5, N. Y.

Philadelphia Bank Stocks—Comparison of 12 largest Philadelphia banks—Stroud & Company, Incorporated, 123 South Broad Street, Philadelphia 9, Pa.

Tax Reduction—An Opportunity—Study—W. E. Hutton & Co., 14 Wall Street, New York 5, N. Y.

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Allis Chalmers Manufacturing Co. — Annual report — Shareholder Relations Department, Allis-Chalmers Manufacturing Co., 1125 South 70th Street, Milwaukee 1, Wis.

Babcock & Wilcox—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

California Oregon Power—Data—du Pont, Homsey & Company, 31 Milk Street, Boston 9, Mass. Also in the same bulletin are brief analyses of **Foremost Dairies** and **Oliver Corp.**

Commercial Credit Company—46th annual report—Commercial Credit Company, Baltimore 2, Md.

Consolidated Edison of New York — Memorandum — Dean Witter & Co., 45 Montgomery Street, San Francisco 6, Calif.

Diamond Alkali Company — Analysis — Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Diketan Laboratories, Inc. — Memorandum — Lloyd Arnold & Co., 364 North Camden Drive, Beverly Hills, Calif.

Epsco Inc. — Analysis — Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

First National City Bank — Data — Oppenheimer, Vanden Broeck & Co., 120 Broadway, New York 5, N. Y. Also in the same circular are data on **Georgia Pacific Corp., National Tea Co., Southwestern Public Service Company** and **Standard Oil Company of Ohio.**

International Bank (Washington, D. C.)—Report—Leason & Co. Incorporated, 39 South La Salle Street, Chicago 3, Ill.

Marshall & Ilsley Bank—Report—The Milwaukee Company, 207 East Michigan Street, Milwaukee 2, Wis.

Mexican Telephone Co. — Memorandum — Model, Roland & Stone, 120 Broadway, New York 5, N. Y.

Reynolds Tobacco—Analysis in current "Monthly Investment Letter"—Hayden, Stone & Co., 25 Broad Street, New York 5, N. Y. Also in the same letter is an analysis of **Lorillard.**

Richmond Homes, Inc.—Memorandum—Cruttenden, Podesta & Co., 209 South La Salle Street, Chicago 4, Ill.

Rimrock Tidelands, Inc.—Report—T. J. Feibleman & Company, Richards Building, New Orleans 12, La.

Skelly Oil Company—Annual report—Skelly Oil Co., Secretary, Skelly Building, Tulsa 2, Okla.

Standard Pressed Steel — Study — Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Telecomputing Corp.—Analysis—Wm. H. Tegtmeyer & Co., 39 South La Salle Street, Chicago 3, Ill. Also in the same circular are brief analyses of **Bell & Gossett** and **Cook Electric.**

Title Guarantee & Trust Company—Bulletin—Robert H. Huff & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Vitro Corp. of America — Memorandum — Hemphill, Noyes & Co., 15 Broad Street, New York 5, N. Y.

Wisconsin Bankshares Corporation—Analysis in current issue of "Business and Financial Digest"—Loewi & Co. Incorporated, 225 East Mason Street, Milwaukee 2, Wis.

Will Credit-Ease Cushion The Business Downturn?

By DON M. SOULE

Assistant Professor of Economics
University of Illinois, Urbana, Illinois

Illinois economist believes a considerable amount of success can be expected from credit-ease at the present time though he does not believe, generally, that such a stimulus can succeed if it follows a long period of exaggerated economic activity. The author criticizes Keynesian concept of business cycle, offers his own views of causes and cures of such economic phenomena, and ascribes a crucial, but not exclusive, role to intelligent bank credit management.

Don M. Soule

Numerous predictions of a business downturn plus the Federal Reserve's recent slight easing of credit restraints raise the question of how effective a policy of credit-ease can be in minimizing a tendency toward recession or depression. It has become customary to teach that monetary controls not only are limited in over-all effectiveness but also are one-sided; spending can be discouraged much easier than it can be encouraged. It is said that credit-ease is ineffective because if consumers and businessmen do not desire to borrow, even the lowest interest rates will ont be attractive and additional demand deposits created by Federal Reserve open-market purchases will merely lie idle.

The most often cited example is the failure of credit-ease during the early 1930's. However, those were unusual times when other attempts to stimulate spending also failed. After a long period of excessive credit expansion and then a disastrous forced contraction of bank credit accompanied by economic paralysis at home and abroad, it is little wonder that a policy of credit-ease had little stimulating effect. Since most of those conditions do not exist at the present time, a re-examination of the effectiveness of monetary controls is in order.

How much stimulative effect can be expected from lower interest rates and greater availability of credit depends mainly on the economy's over-all state of health. To illustrate, we might liken the economy to a dog on a leash. It seems obvious that if the dog were old, sick, and nearly always on the verge of collapse, easing of the leash would not cause the dog to surge ahead. But a vigorous young pup would nearly always be straining on the leash and would likely surge ahead at the slightest easing of controls. If allowed to run free, however, the pup might overexert itself, become exhausted and then not respond to any stimulus. The effectiveness of monetary controls lies mainly in their ability to keep the economy on a leash, so to speak, and thereby prevent its overexertion, exhaustion, and inability to respond to the stimulus of credit-ease. Much of the lack of faith in monetary controls stems from doctrines of oversaving and economic maturity or stagnation. The economy is pictured as old and sick rather than young and vigorous. Insofar as these doctrines are incorrect, a reasonable amount of success can be expected from a policy of credit-ease.

The Oversavings Theory

Current thinking on business-cycle theory and policy continues to be strongly influenced by the oversavings doctrine of J. M. Keynes. According to this view, several years of high level economic activity will almost certainly lead to a business downturn. At higher levels of national income, savings become a larger proportion and consumption a smaller proportion of national income because consumers soon satisfy their most urgent needs. A business downturn could be avoided if the increased savings were offset by investment. But several years of high-level investment cause the best investment opportunities to be used up leaving only those investment projects with expected rates of return too low to justify the cost of capital. Also, the failure of consumer spending to rise in proportion to the rise in income is depressive on incentives to invest. Under these conditions, easing of monetary controls could not be expected to stimulate spending. Something more than lower interest rates and greater availability of credit is needed when profitable opportunities to invest are exhausted and consumers are overstocked with goods. Thus deficit spending by government appears to be the only feasible way of supplementing inadequate private spending and preventing widespread unemployment.

Obviously, this theory of oversaving would not be valid if it were intended to describe the long-run economic process. Looking back at the economy's performance, it is clear that consumption has not become a smaller percentage of income as income has increased. And opportunities to invest generally have been adequate over the long run.

The Keynesian theory of oversaving mainly concerns the short-run fluctuations in business activity usually referred to as the business cycle. But as an explanation of the business cycle, the Keynesian theory is inadequate and even misleading. It implies that downturns in business activity are abnormal and indicative of structural defects in the capitalist or free-enterprise economic system. It also implies that anything less than continuous full employment must be avoided at almost any cost. This theory casts great doubt not only on the private economy's ability to maintain a reasonably high average level of employment but also on the effectiveness of monetary controls (changes in interest rates and in the availability of credit as distinct from Federal tax, expenditure, and debt policy) as a means of modifying the ups and downs of business activity.

Before prescribing the cure for a particular problem, the nature and cause of the problem must first be diagnosed correctly. The case for greater reliance on the relatively mild monetary controls rather than on strong fiscal controls rests mainly on an explanation of business fluctuations which does not imply that all lapses from full employment are abnormal and indicative of basic defects in the capitalist economic system.

Economic Fluctuations and Growth

The normal pattern of growth and change in a capitalistic economy is for economic activity to fluctuate around an average level of less than full employment. Normally, the desire to acquire more consumption goods and to build more capital goods is very strong. Over the years, great increases in the standard of living and the stock of capital goods has failed to satisfy this basic desire to spend. Nevertheless, total spending and employment do fluctuate, and the desire to spend sometimes appears very weak. Why may spending sometimes become inadequate to maintain the economy at capacity output even though the desire to acquire more goods is normally very strong? This seeming paradox can best be explained by describing the necessary conditions for maintaining total spending, output, and employment at such a high level.

A high level of consumption spending could be maintained if consumers continually felt that their level of consumption were inadequate in comparison to the many types of goods and services offered for sale. Most consumers would have little difficulty spending all or most of their incomes if new types of consumers goods could be introduced in such great amounts and with sufficient regularity to make the current level of consumption always appear inadequate. Likewise, a high level of investment could be maintained if businessmen continually felt that their productive facilities were inadequate to supply the high level of consumer demand

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W. Radetzky Asst. Sec. Of N. Y. Hanseatic

PHILADELPHIA, Pa.—William R. Radetzky, manager of the Philadelphia office of New York

William R. Radetzky

Hanseatic Corporation, Philadelphia National Bank Building, has been appointed assistant secretary of the firm.

Hathaway Inv. Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Edward M. Chase, Elsie D. Dinsmore, William H. Dobbs, William A. Galloway, Merrill H. Gee, Floyd R. Pettigrew, and Philip Turnwall are now with Hathaway Investment Corp., 900 South Pearl Street.

COMING EVENTS

In Investment Field

March 7, 1958 (New York City)
New York Security Dealers Association 32nd annual dinner at the Waldorf-Astoria.

March 19, 1958 (St. Paul, Minn.)
Twin City Investment Women's Club meeting at Town & Country Club.

April 11, 1958 (Toronto, Canada)
Toronto Bond Traders Association annual dinner at the King Edward Hotel.

April 23-25, 1958 (Houston, Tex.)
Texas Group Investment Bankers Association annual meeting at the Shamrock Hotel.

April 25, 1958 (New York, N. Y.)
Security Traders Association of New York Annual Spring Dinner at the Waldorf-Astoria.

May 1 & 2, 1958 (St. Louis, Mo.)
St. Louis Municipal Dealers Group annual Spring Party.

June 9-12, 1958 (Canada)
Investment Dealers' Association of Canada annual convention at Manoir Richelieu, Murray Bay, Quebec.

June 19, 1958 (Minneapolis-St. Paul)
Twin City Bond Club annual picnic and outing at the White Bear Yacht Club, White Bear Lake, Minn.

June 27, 1958 (New York City)
Investment Association of New York outing at Sleepy Hollow Country Club, Scarborough on the Hudson, Scarborough, N. Y.

Sept. 18-19, 1958 (Cincinnati, Ohio)
Municipal Bond Dealers Group annual outing — cocktail and dinner party Thursday at Queen City Club; field day Friday at Maketewah Country Club.

Sept. 29-Oct. 3, 1958 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at the Broadmoor.

Nov. 30-Dec. 5, 1958 (Miami Beach, Fla.)
Investment Bankers Association of America annual convention at the Americana Hotel.

Nov. 2-5, 1959 (Boca Raton, Fla.)
National Security Traders Association Annual Convention at the Boca Raton Club.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Trade and industry the past week showed little change from the course it has followed in past months. The steel and automotive industries continue to suffer from a dearth of orders and according to "Steel" magazine, "steel producers are revising estimates of their 1958 output down to 95,000,000 tons. In December they were talking in terms of 111,000,000 tons." In the case of automotive output "Ward's Automotive Reports" estimated United States February car production would total about 393,000 units, the lowest output for the month in six years. Auto makers, it pointed out, had instituted major cutbacks during February to reduce new car stocks in the field.

With respect to trade volume for the country at large the past week, buying rose perceptibly following blizzard conditions which obtained in many areas in the week preceding, however, total volume held below that of a year ago.

In a news release on Monday of this week, the First National City Bank monthly letter on business and economic conditions stated that "hope of improvement in the early future rests largely on two possibilities. One is that the usual spring pickup will check the down-trend. The other is that in many lines at least the decline in industrial operations has brought production so far below consumption, and is cutting inventories so satisfactorily, that a larger output will soon be called for.

"A seasonal improvement can have important psychological effects, but it would be a mistake to confuse a purely seasonal rise with real recovery. Ordinarily, total employment might be expected to rise about 3½% between February and May, while unemployment usually drops off. Industrial production normally advances 3½% during the first quarter, but loses about half that gain in the second quarter. Retailers expect a pickup in sales soon because of the relatively early Easter this year. Construction, agriculture, and other outdoor pursuits will step up activity and employment when the weather improves. These usual seasonal advances must be allowed for in appraising the reports. The test is whether the pickup falls short of or exceeds normal expectations."

We learn this week from the monthly report of the National Association of Purchasing Agents, that "production schedules are still being cut. Employment is drastically down, with more members reporting reductions and many projects either being abandoned or deferred."

The report states, on the other hand, that "one of our most sensitive indicators, new orders, has taken a definite turn for the better. About 24% say their situation has improved. Last month 15% reported improvement.

"Only 31% say it is worse, compared with 48% showing a poorer situation last month. These figures mark a reversal of the downward movement in the new order situation that has prevailed for months," it further notes.

For the second year in a row, construction beat out automotive as the nation's No. 1 user of steel, "The Iron Age," national metalworking weekly declared on Wednesday of this week, in its review of the steel industry.

Construction first usurped automotive's traditional role as the leading steel consumer in 1956. It did it again last year when it bought one of every five tons of steel shipped and it has a good chance to repeat this year.

The growing importance of construction as a steel customer is indicated by "The Iron Age's" annual analysis of steel shipments. Of the 79,900,000 tons of steel shipped last year, the construction industry received 16,500,000 tons. This compared with 15,700,000 tons shipped to automotive. Oil, gas and mining, one of the few industrial groups to use more steel in 1957 than in 1956, was third with 8,300,000 tons last year, compared with 7,600,000 in 1956.

Machinery, containers, exports, railroads; pressing, forming and stamping; agriculture and shipbuilding complete the top ten steel users, in that order.

The metalworking magazine reports it has received further confirmation that the bottom of the recession in steel may have been reached. Several large mills have noted a slight improvement in their order volume.

This does not mean that a definite upturn is in sight, this trade weekly observes. It does however, indicate the probability

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Brotherhood, Economic Recovery And Other Vital Considerations

By HON. RICHARD M. NIXON*
Vice-President of the United States

Administration's commitment to stop economic downturn and stimulate recovery, summit negotiations, domestic bigotry and prejudice, and civilian control of outer space development, are topics Vice-President Nixon addresses himself to on the occasion of National Brotherhood Award to ex-Secretary of the Treasury Humphrey. Mr. Nixon affirms whatever action is necessary will be taken as the nation "cannot afford a prolonged depression;" urges we make known our record for a lasting and just peace; and warns that in the worldwide struggle with communism, "racial and religious prejudice is a gun we point at ourselves."

We have been, over the years, concerned with brotherhood as a moral issue. The moral issue is primary. There are, however, other vitally important considerations. In the world-wide struggle in which we are engaged, racial and religious prejudice is a gun we point at ourselves.

Richard Nixon

We cannot preach brotherhood to peoples abroad and practice bigotry and prejudice at home. Our enemies magnify the smallest incident for other people to see. The result is a completely false impression of the attitudes and practices of all but a small minority of Americans.

The evidence of effectiveness of this magnified distortion is factual. We have seen it in Formosa, in Viet Nam, in other lands.

Shall we blame the Formosans or the Vietnamese? I do not believe we can. Part of the blame belongs to us.

We can blame the Communists, but first we need to look within our own hearts.

What can de do?

We must practice equality at home as effectively as we talk it abroad.

We must be more judicious and selective in the people we send overseas.

Our tourists should be better briefed on our national problems abroad.

We must have more people from abroad see us as we are at home.

We must do a far more effective job in telling the true story of our progress toward brotherhood.

The truth is America's most potent weapon. We cannot enlarge upon the truth. We can expand our efforts to make that truth more shinning.

* * *

Because We Want Peace

From the standpoint of United States security, the greatest need we have today—greater than the need for another satellite or of a missile which will hit the moon—is for a program that will convince people throughout the world that the military and foreign policy of the United States has only one aim—the achieving of a lasting and just peace.

The billions we spend for missiles and foreign aid will be wasted if we do not successfully counteract the Communist propaganda which paints us as warmongers.

George Humphrey, by reason of his having been Secretary of the Treasury, by his being one of our greatest industrial leaders, by his being one of our foremost exponents of foreign trade, has been and is labeled as a banker to death.

This is bitterly ironic. No nation in history has given more of its material wealth to other nations than the United States in the past 50 years.

From 1945 to 1958 we spent $382.2 billion for military preparedness at home, and $64 billion for economic and military aid abroad. Fifty-three-thousand-four-hundred Americans died in World War I. Two-hundred-ninety-one-thousand-five-hundred died in World War II. Thirty-three-thousand-six-hundred died in Korea. Two-million-six-hundred-thousand Americans are under arms today.

Why this huge expenditure of money and manpower?

Not because we want territory, because we have asked for none and we have acquired none.

Not because we want the countries we aid to be dependent upon us; but because we want them to be strong enough to be independent of any foreign domination.

Not because we want war; but because we want peace.

The only war we want to wage is the war against poverty, misery, and the need in the world. That is why we have offered to share with the world the benefits of peacetime atomic energy. That is why we have offered to set aside a portion of the savings from any disarmament program for aiding under-developed countries. That is why we have asked the Soviet Union to join with us in the exploration of outer space for peaceful purposes.

Yet we are pictured by the Communists to the world as warmongers and merchants of death.

It is our responsibility to correct this black image. We must give to the world's people the true image of America—the America represented by George Humphrey, one who symbolizes our interest in and concern with World Brotherhood. [Ed. Note—Former Secretary of the Treasury George Humphrey was honored by National Conference of Christians and Jews with National Brotherhood Award.]

Race For Outer Space

Our principal concerns in the past six months have been to assure ourselves that the United States and its allies maintain a deterrent power for peace. We have rightfully been concerned that we do not lose—and we will not lose—the race for outer space.

Having said that, let me say that it is important that our own outer space development be under the control of a civilian agency. The potentials of outer space are so vast and so illimitable that we must make positive plans to probe this potential in all its aspects.

Control of space development by a military agency can only mean that peaceful exploration of space will assume a minor role. It is essential that the peaceful uses of space be explored equally as intensively.

One of the serious problems of our military-scientific relationship is the perhaps understandable reluctance of military people to free science for the investigation of areas in which an end result of particular military application is not evident.

One very successful application of the civilian role in science may be seen in Cleveland at the National Advisory Committee for Aeronautics Laboratory. This same principle, with perhaps modifications permitting even greater latitude, must be applied to this country's space program.

Summit Negotiations

There is considerable confusion about the American attitude toward summit talks. This is true not only in the United States but also among our allies and friends abroad.

The favorite cliche of those who advocate summit talks regardless of the circumstances is—"talking is always better than fighting."

This, however, is not the only choice. Talking is not better than not talking when you don't know what you are going to talk about.

Our responsible diplomats are more than willing to negotiate peace with the Soviet leaders.

They have negotiated some agreements with the Soviet Union. More can follow. But they must—and can—only follow after the paths of normal diplomacy have been traced to their logical—and safe—conclusion.

So, to the world we must clearly and unequivocably delineate our attitude and our determination.

That we have and will negotiate with the Soviet leaders.

That wherever there has been a reasonable opportunity to reach agreement, the United States has sought it out. The United States will continue to do so.

But we believe that if a summit meeting is to contribute to the cause of peace there must be adequate preparation before it is held. A meeting which failed to reduce major tensions would injure the cause of peace by creating a false sense of security followed by disillusionment when the meeting failed.

Halting a Recession

One of the essential elements of our strength for peace is our domestic economy, and with it the economy of the free world.

The United States cannot afford a prolonged recession.

We cannot afford the human costs involved in excessive unemployment.

We cannot afford the economic costs which result when our productive capacity is not at adequate levels.

We cannot afford the international costs involved where the economies of our friends throughout the world are so directly affected by what happens to the United States.

That is why this Administration is firmly committed to the principle that the Federal Government must take whatever action is necessary to stop the economic downturn and stimulate recovery of the economy.

The difficult question is one of timing.

Acting too fast and too extensively can only lead to a renewal of inflation.

A runaway inflation would be disastrous to tens of millions of people. It would affect savings and pensions, as well as slice into the paychecks of millions who do not have the built-in-protection of cost-of-living increases.

The President and others in his Administration have been criticized because they have dared to speak of their basic faith in the American economy and of their confidence in an early upturn in business. When we consider that the major factor in the downturn has been the expression of a lack of confidence, this is the only proper attitude for the President of the United States to have.

The calamity howlers and depression predictors are simply giving aid and comfort to the forces which delay the recovery all Americans want.

Because the economy is basically sound and because of action the Administration has taken and is prepared to take, the American people can make their plans for 1958 with confidence rather than fear.

*Remarks made by Mr. Nixon at the National Brotherhood Award dinner of the National Conference of Christians and Jews, Cleveland, Ohio, Feb. 27, 1958.

Sheffield Adds to Staff

(Special to The Financial Chronicle)

NEW LONDON, Conn. — William Belgrade is now affiliated with Sheffield & Co., 325 State Street.

With De Haven, Townsend

(Special to The Financial Chronicle)

STAMFORD, Conn.—William F. Keeshan has joined the staff of De Haven & Townsend, Crouter & Bodine, 1 Atlantic Street.

The Washington Outlook For the Building Industry

By NORMAN P. MASON*

Commissioner, Federal Housing Administration, Washington, D. C.

Federal Housing Administrator detects a bright outlook for the building industry in the coming year. Mr. Mason points to the increased FHA applications and mortgage insurance in recent months, and to conditions favorable for a continued upward trend in the volume of home construction and improvement. Lists steps taken in recent months to encourage housing and proposals now before Congress, and deplores bill now pending to allow Governmental assumption of defaulted mortgages.

I saw an article in one of the Sunday supplements a week or two ago by an expert on family finances, who had invited readers of the magazine to write in about their "biggest financial headaches." Beefing is a thing we all like to do occasionally, and so he had received a great many answers. Taxes, medical expenses, education, car maintenance, grocery bills, were all complained of, along with dozens of other items.

Norman P. Mason

Do you know what I found most interesting about the whole thing? It was the fact that nobody even mentioned housing expense as a source of trouble. Apparently whatever the families concerned spent on housing, they considered money well spent.

This, I think, is terribly important to the home improvement industry.

The industry is one that never has to worry about the existence of a market for its goods and services. The market actually is never oversold. But if potential customers don't think about this need of theirs, it won't be translated into business.

If there is to be a market for home improvement work, owners have to appreciate the importance of keeping up their properties, materials and labor have to be available to do the work, the general economy must be sound so that people will not hesitate to undertake such work, and there must be a sound method of financing home improvements.

Favorable Conditions Exist

We have these conditions now. Our economy is sound. It is true that unemployment increased more than seasonally last month, and this is cause for the intelligent planning that is being done—but not for alarm. It does not indicate any basic weakness.

Those of us who choose the term recession as a description of present conditions—a term I do not agree with—have to consider what we have receded from. The economy never operates on a dead level. You know what charts of economic activity look like. There are continual movements up and down, and sideways, too. We are experiencing a downward movement now, but we still are in a period of relatively good times. During the greater part of the last 12 months our concern was with controlling inflationary pressures.

President Eisenhower said in a recent statement, "Every indication is that March will commence to see the start of a pickup in job opportunities. That should mark the beginning of the end of the downturn in our economy, provided we apply ourselves with confidence to the job ahead. As Americans we have a responsibility to work toward the early resumption of sound growth in our economy."

The present Administration is dedicated to the maintenance of a sound economy. As the President indicated, we all have reason for confidence if we look closely at conditions.

One of our prominent economists said recently: "Consumers can be sold, and if they are sold their purchases can lift the economy right out of this business dip. . . . Businessmen are staking millions of dollars on continued prosperity."

Housing Interest Is Up

Confidence in the soundness of the economy is indicated, I think, by the fact that applications for mortgage insurance on proposed new homes were received by the Federal Housing Administration in January at a rate 14% above the December rate and 64% higher than in January a year ago. FHA applications on existing homes were 26% above December and 75% above January, 1957. Applications involving multi-family construction are also increasing. Total new housing starts in January as reported by the Bureau of Labor Statistics were at an annual rate of more than a million.

So it seems people are not hesitating to build or buy homes or to build new apartments, and lenders are ready to finance the transactions.

Housing fills a real need for the future growth of the country. No other industry touches so many lives as the building industry, from the viewpoint not only of employment but of general well-being.

I previously described the sidewise movements in the economy. What I had in mind particularly was that last year when the upward trend was strongest, the housing industry was handicapped by shortages of money. The demands of the economy were so great that there simply wasn't enough money to go around. In those circumstances, loans insured by the FHA, on which the return was limited, were less attractive to lenders than other forms of investment. The rates on conventional mortgages and home improvement loans increased, and unsound home financing practices began to reappear.

More Housing Money Available

Recent developments have had the welcome effect of making more money available for the building industry — the lowering of the rediscount rate by the Federal Reserve Board and its reduction of reserve requirements, reduced yields on bonds—in general the operation of the law of supply and demand is making loans for housing construction and improvement more attractive in the money market. This has already showed itself in the rise in FHA mortgage insurance applications and in the increasing demand for loans for home improvement. As the Spring building season gets under way, we can expect the trend to accelerate.

A number of steps have been taken in the last few months to encourage this trend, including the lower downpayment requirements for FHA-insured mortgages put into effect last August, the recent removal of the FHA requirement that closing costs be paid in cash, and then the release of additional funds for military housing along with other Government-aided building.

Further proposals are before Congress now. We have asked for a supplemental authorization of funds so that we can speed up our processing of mortgage insurance applications. We hope that Congress will increase the maximum mortgage amount to $30,000 in place of the present $20,000, and that the interest rate limitations that now hamper our multifamily housing insurance operations will be removed. These measures should all help to produce more new housing, and the more new housing is built the more competition it will provide for older housing, which means that your field of operations will be broadened.

Defaulted Mortgages

There is a housing bill before Congress, too, that we have **not** asked for and **do not** think is necessary. It's a bill to have the Government step in and take over mortgages for FHA home owners in default. That sounds dramatic, but let's look at the facts. Right now defaults on FHA home mortgages are at an all-time low. Clearly there isn't a need for such legislation. In addition, FHA already has a system of permitting the postponement of foreclosure that has worked for a generation of home owners. It has been used successfully in flood areas and at times of labor disputes. FHA home owners have set a record for keeping their payments up to date. They are proud of their homes.

We are thinking about a lot of new things that will lead to better housing at the grass roots, and active industry, and a continued healthy economy. We are even thinking of the possibility of insuring home improvement loans for completely modernized kitchens, including the installing of electrical equipment that so many American housewives tell us is desirable for good living conditions.

Present-day living patterns increase the need for home maintenance and improvement. We have built about nine million new homes since 1950. All this new construction calls attention to the shortcomings of older homes from the viewpoint of modern requirements. Then people are moving around more than they used to, and when homes change hands there is usually repair and improvement work to be done on them.

Home Improvement

A practical financing plan is a necessity. Such a plan is available, as most of you know, through FHA home improvement loan insurance. This type of loan has proved its worth in 24 years of successful operation.

When it was first put into effect, the idea of making unsecured installment loans for three-year terms at a modest discount rate was considered visionary. It was freely predicted that the Government stood to lose heavily by insuring such notes.

But, gentlemen, FHA experience shows that most American families respect their obligations. They pay their debts. Property improvement loan insurance has not cost the Government a cent. Twice in a little more than three years we have been able to reduce the premium that lenders pay for the insurance because our insurance claims were less than we anticipated.

I feel sure that those not already familiar with this part of the FHA program and all the necessary information can obtain it from any of the 8,000 lenders that hold contracts of insurance.

A recent Census report shows substantial improvement in the quality of our housing inventory since 1950. Part of the improvement can be attributed to the fact that between 1950 and 1957 about nine million units were added to the supply; but the older housing definitely improved, and I feel certain that building industry can take credit for this.

Our Government in Washington is vitally interested in the way the building industry is meeting their responsibilities to the economy of our nation—and to the well-being of American families. What it thinks and what it does is important.

FHA's repair and modernization program is designed to help meet these obligations. We want to see that it does help. We want to know reactions. We value opinions. As I have said, we are seriously considering what new things should be done to improve the program—what new avenues of assistance should be explored. In a growing country like ours, we cannot be static. We must be ready for our ever-expanding opportunities and markets.

Our cities must be revitalized. Every American family must have a good place to live. Slums must be made a thing of the past. We must keep blight from even starting. Industry can do the job. The economic climate is excellent for it. I predict it will do it.

*An address by Mr. Mason before the National Established Repair Service and Improvement Contractors Association, Atlantic City, Feb. 25, 1958.

H. A. Bellows Joins Jas. Oliphant & Co.

Jas. H. Oliphant & Co., 61 Broadway, New York City, members of the New York Stock Exchange, announce that Harold A. Bellows has become associated with them. From 1943 until his retirement in 1956, Mr. Bellows was Treasurer of Worthington Corp., manufacturers of a diversified line of machinery and equipment with offices in Harrison, N. J. He is a Director of Glen Ridge Trust Company, Glen Ridge, N. J.

A Misuse of Taxation to Stifle Banking Competition

By AUGUST IHLEFELD*

President, Savings Banks Trust Company, New York City

In flaying commercial bankers, recent resolutions by American Bankers Association's Administrative Committee and New York State Bankers Association, and the Curtis Bill, Mr. Ihlefeld charges an underhanded, brazen attempt is being made to use Federal taxing power to stifle competition between mutual thrift institutions and commercial banks for the benefit of the latter—with respect to savings. The banker contends the public interest and economy's welfare would be jeopardized, in claiming measures contemplated would: (1) limit interest rates on savings to that of commercial banks; (2) weaken mutuals by preventing sufficient reserves and surplus for future growth; and (3) result in savings flowing to commercial banks, because of their numerous branches and "department-store" appeal, without stimulation of savings needed for the years ahead.

A healthy, growing economy needs an adequate flow of savings to finance business, home ownership and Government. Only if new capital is provided mainly by savings rather than by commercial bank credit expansion can we achieve growth without inflation. The favored savings medium of the American people is the savings account. Last year, about $12 billion was added to savings accounts. This was more than half the total increase in liquid personal savings during 1957.

August Ihlefeld

Our laws recognize the vital economic role of the savings account by actively fostering the development of institutions to provide such service to the American people. First savings banks, and later savings and loan associations, were chartered as mutual institutions. Stockholder-owned commercial banks were empowered to pay interest on savings deposits. Credit unions also entered the field. The Postal Savings System, a public agency, was created to provide a similar service.

Competition is the mainspring of a free enterprise economy. Public policy in this country has favored active competition between mutual and stock institutions, and even a Federal agency, to attract and hold savings. These institutions, by competing vigorously with each other, have greatly stimulated saving. Our highly developed, keenly competitive savings system explains why per capita personal savings are far higher in the United States than in any other country of the world.

Stifling Competition

Adequate competition has been assured in rendering savings account service by the keen rivalry between mutual and stock institutions to serve the saver. Great as has been the contribution of competition to our well-being, it is constantly threatened by those who prefer a less rigorous way of economic life.

Attempts to stifle competition, in violation of the basic principles of a free enterprise system, assume many forms. A particularly effective way to destroy competition is to use the taxing power of Government to wipe out the advantage that a more efficient competitor possesses over a less efficient rival.

Mutual thrift institutions are threatened today by a cunning attempt to use a Federal tax bill to stifle the competition they give commercial banks in savings account service.

The bill designed to achieve this result is deceptively brief and simple. But legislative history contains very few, if any, examples of so brazen a proposal to use the taxing power to undermine and eventually destroy more efficient competitors for the benefit of the less efficient.

The Curtis Bill

This bill, introduced by Representative Thomas B. Curtis of Missouri, is officially called the "Savings and Loan Association and Mutual Savings Bank Tax Act of 1957." More accurate and descriptive titles would be the "Destruction of Competition for Savings Act," or the "Act to Discourage Savings."

The novel and most significant part of the bill is its Section 3, which would tax up to 52% the return credited by a mutual savings institution on savings accounts in excess of 3% per annum.

Under this section a mutual savings bank which now pays its depositors 3¼% would have to pay an income tax of 52% on the ¼ of 1% distributed in excess of 3%. The depositor receiving 3¼% on his savings, in turn, would have to pay personal income tax on the whole amount credited to him, so that payments to him in excess of 3% would be doubly taxed. Such double taxation of the return paid on savings violates every canon of sound taxation and sound economics.

However, and this of course is the purpose of the bill, it is very doubtful that mutual savings institutions would be able to pay more than 3% on savings if this bill were to become law. In effect, all earnings of mutual savings institutions above 3%, whether paid out or retained, would be taxed at 52% by direct levy on these organizations, regardless of their need for adequate reserves and surplus to protect depositors. To make even small additions to reserves and surplus to safeguard the additional savings that will be entrusted to them in the future, mutual thrift institutions would as a practical matter be limited to paying a 3% rate under the Curtis bill.

It is true that commercial banks are now limited by Federal Reserve regulation to paying 3% on savings deposits. But that limitation is imposed because the supervisory authorities do not feel that commercial banks, with the higher costs and added risks they incur as department stores of finance, can safely pay more. It is precisely because mutual savings institutions specialize exclusively in savings service and are barred by law from entering such profitable but uncertain fields as risk loans to business and consumer credit loans that they can pay a higher rate of return upon savings.

The Purpose of Taxation

The purpose of taxation is to raise revenue for Government without imposing an undue or unfair burden upon taxpayers or the economy as a whole. To base a tax upon the excess rate of return that one class of savings institutions pays over that paid by a less efficient competitor is a crude perversion of the taxing process.

This principle of taxation, once adopted and upheld in the courts, would set a most unwholesome precedent. It could be used, for example, to impose an added tax upon mutual insurance companies that charge lower premium rates than their competitors. Applied generally, this principle calls for a surtax upon more efficient competitors in all branches of commerce and industry based on the lower prices they charge as compared with less efficient rivals.

Why the Curtis Bill?

Stripped of pretense, the Curtis bill would use the taxing power of the Federal Government to force mutual savings institutions, the greater number of which are state chartered, to reduce the rate of return they pay the saver. This is so improper and unsound a proposal that one inevitably wonders why it is being pushed so vigorously, I might even say feverishly, by its advocates, organized groups of national and state commercial banks.

The reason becomes clear when we review recent banking history.

Commercial banks, the department stores of banking, have shown limited interest in savings deposits during most of their history. They have preferred to concentrate on attracting demand deposits on which no return is paid, since they could not be sure of earning a profit for their stockholders from savings deposits after paying a competitive rate of return to the saver. During the decade ending in 1956, the average rate of return paid on time deposits by commercial banks was less than half that paid by mutual savings institutions. Commercial banks have thus been content to leave to the specialized mutual thrift institutions the major part of the savings account business of the country. As late as 1956, mutual savings banks and savings and loan associations gained $6.8 billion in savings, while commercial banks had an increase of $2.2 billion in savings and other time deposits.

Last year, commercial banks experienced an unprecedented demand for loans of all kinds at the highest interest rates witnessed in decades, while the restrictive credit policy of the Federal Reserve authorities limited their ability to expand loans and demand deposits. Savings deposits seemed highly desirable under such conditions, and commercial banks sought and received permission from the Federal Reserve Board to pay up to 3% to compete more actively for such deposits. A vigorous drive to attract savings deposits was launched by commercial banks all over the country, with what looked like impressive initial results.

But the mutual thrift institutions were also benefiting from higher interest rates, since they could invest funds at much higher yields in gilt-edged bonds and quality mortgage loans. A number of mutual savings banks in New York State raised their rate to 3¼%. This was quite frustrating to the commercial banks that were hoping to attract a large volume of savings deposits away from the mutual institutions. In fact, commercial bankers soon found that a major part of the extraordinary gain in savings deposits they achieved at such high cost during the past year came out of their own checking accounts rather than from mutual savings institutions. Thus, they found themselves paying 3% on the very same funds they previously had for nothing as demand deposits.

Commercial bankers obviously could not ask legislatures and supervisory authorities to clamp a rigid ceiling upon the rate of return paid on savings by mutual institutions, so that these savings could be diverted to commercial banks. Instead, efforts followed to attain the same result by devious means. One such effort was the proposal in New York State for legislation to authorize commercial banks to absorb mutual savings banks by merger after distributing their surpluses. When Senator Pierce and his joint legislative committee had the good sense to bury this iniquitous proposal, which flies in the face of every economic and moral principle, the persistent foes of competition turned to the equally improper device of a Federal tax law to stifle competition for savings. The Curtis bill has been gleefully endorsed because it aims to compel mutual savings institutions to reduce the rate they pay on savings to that paid by commercial banks. Once it is enacted, commercial banks hope to draw billions of dollars of savings deposits from mutuals because of their many branch offices and their "banking under one roof" promotion appeal. The real objective of the commercial bank advocates of the Curtis bill is clearly revealed in resolutions adopted by the Administrative Committee of the American Bankers Association on January 18 and by the New York State Bankers Association at its annual mid-winter meeting on January 20. The resolution of the latter Association requests that the Curtis bill be amended so as to apply the 52% income tax to any return paid by a mutual savings institution on savings in excess of whatever maximum rate of interest the Federal Reserve authorities will permit commercial banks to pay on savings deposits. With the recent downturn in interests rates, commercial banks expect that the maximum rate they may pay on savings will soon be reduced again to 2½%. In that event, mutual savings banks and savings and loan associations would also be forced to lower the rate of return they pay because everything in excess of 2½% would be taxed at 52%.

The specialized mutual savings institutions invest savings in long-term mortgage loans and bonds. Hence, they will continue to receive for many years to come the increased yields obtained on mortgage loans and other investments made during the period of high interest rates. The Curtis bill, if enacted, would tax away these higher returns which could otherwise be paid out to savings depositors and so stimulate the volume of personal savings over the years ahead.

Commercial banks, by contrast, expanded their business and other short-term loans while interest rates were high. Hence, they will be forced to reduce the rate of return paid on savings accounts in many cases now that short-term interest rates are dropping sharply. The American Bankers Association's Administrative Committee and the New York State Bankers Association hope to see commercial banks escape this basic competitive disadvantage of the department store type of bank by punitive double taxation of any return paid by a mutual savings institution in excess of that permitted a commercial bank.

The ability of commercial banks to stimulate needed new savings in the years ahead will be lessened as the rate of return they pay on savings accounts declines. They propose that the effectiveness of mutual thrift institutions in stimulating new savings be likewise diminished by punitive double taxation of a part of the return they pay to savers.

If our Congress would want to discourage and penalize savings, one could hardly imagine a more effective way to do so than by enacting the Curtis bill.

From 12% to 5%

The Curtis bill seeks to prevent mutual thrift institutions from serving savers effectively not only by taxing the return they pay in excess of 3% per annum, but also by levying a tax on them for all earnings not paid out where their

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*An address by Mr. Ihlefeld, before the Savings Banks of Westchester County, White Plains, N. Y., Feb. 18, 1958.

Needed Labor-Management Laws

By HON. CARL T. CURTIS*
United States Senator (Rep., Nebraska)

Senator Curtis expresses respect and admiration for all but a minority in the union movement. In order to achieve equality before the law for all persons and groups, he proposes an eight-point remedial labor legislative program. The McClellan Committee member sees the pendulum of custom and law swinging too far toward labor unions and believes his suggested program would correct this imbalanced situation as well as restore equality before the law.

The new media of America have carried the stories which have unfolded before the Senate Committee on Labor and Management and which involve misuse of funds, corruption, violence, beatings, misuse of power, collusion and gangsterism. While we must never lose sight of the fact that these sordid tales relate only to a minority in the union movement, the fact remains that too many international unions have mismanaged their affairs. Too many of the nation's labor leaders have come to power through violence. Too much of the workers' money has been squandered. There have been too many flagrant violations of laws relating to political contributions. Too many local unions have been run for too long by trustees and supervisors. Too many workers have had nothing to say about the officers of their union. There have been too many cases where the rights of individuals have been violated. The time has come for us to turn our attention to legislative suggestions that deal with these situations.

Carl T. Curtis

There was a time when the law, as administered by our courts, was unfair to the working man. This situation prevailed in an era when large business corporations had a gross advantage in bargaining power with the individual workman. Our court decisions were affected by the traditional sanctity of property, the doctrine of master and servant as inherited from the old world, the fellow servant rule, the doctrine of the assumption of risk and the rules as to contributory negligence. All of these things, together with the lack of organized collective bargaining power, not only put working men at a disadvantage, but in some instances their condition almost amounted to subjugation.

Pendulum Swung Too Far

All thinking people are thankful that that condition no longer prevails. Likewise, when thoughtful people view some of the happenings in our economic life today the question is asked, has the pendulum swung too far the other way? Has the doctrine of equal treatment before the law been abandoned? Are some groups granted immunity from the law?

Equality before the law is a principle that need not be defended. In essence, equality before the law means that the strong, the powerful, the organized, the rich, the office holders, the government itself, and the weak, the poor, the unorganized and the individual without influence stand equally before the law. No individual or group is entitled to immunity from the law.

Today unions, as a matter of law and practice, are granted certain immunities. These immunities are against the public interest and they are damaging to working people and employers alike.

If all other citizens are answerable to the law for such acts as trespassing, blocking highways and sidewalks, overturning trucks, destruction of property, and injury to persons, why should unions be immune?

If all other citizens are required to live up to the terms of their contracts, why should unions be granted an immunity from such an obligation?

If our laws prohibit individuals and businesses from conspiring and boycotting another individual or business in order to destroy him, why should a union be granted immunity from the same acts?

If citizens, generally, cannot engage in a restraint of trade, such as interfering with the flow of goods in interstate commerce, why should unions be immune from such laws?

If citizens, generally, are not permitted by law to interfere with the right of an individual to carry on his work, why should unions be granted immunity and be permitted to interfere with the right of an individual to work?

If churches, business organizations, fraternal associations and other groups, cannot recruit new members by intimidation and violence, why should unions be granted an immunity from such methods? Our laws give to the workers the right to organize and the right to bargain collectively. The law does not give the union officials and union organizers the right to organize the workers who do not want to be organized.

Was it intended that the right to bargain collectively should give to either unions or management the right to resort to threats, intimidations, violence and boycotts?

No Bias

My work on the Senate Labor Rackets Committee has not lessened my respect and admiration for the rank and file of men and women who work. I believe them to be honest, upright citizens. The committee is dealing with a minority of union leaders who have directed a program of violence, boycotting, destruction of property, racketeering, unlawful political activities, and the misuse of funds.

We do not seek to single out labor unions and deprive them of their just rights. We do seek equality before the law for all persons and groups.

Accounting of Funds

First, there must be legislation enacted requiring a thorough accounting of union dues nad welfare funds. These funds belong to the workers. They are entitled to the same protection — if their funds were placed in a savings bank or an insurance company. Union officials must be held accountable in their trusteeship. The workers' money must not be spent and wasted at the whim of their officials or for the personal benefit of the officers of the union. The nation was shocked at the conduct of Dave Beck in his handling of workers' money for his own enrichment. They were outraged when he enriched himself out of a fund set up for the widow of his closest friend. Likewise, the members of the bakers' union had just reason to appeal to their government and determine what their President, James G. Cross, was doing with their money. The investigation of the United Textile Workers was another case where their two top officers, Mr. Valente and Mr. Klenert, failed to preserve and protect the funds belonging to those who paid the dues.

More recently our investigation of the International Union of Operating Engineers has brought to light a number of glaring violations pertaining to the handling of funds. A San Francisco local purchased a tract of land for $28,000 but paid $33,500 for it, the difference going to their own union leaders. The tract of land was broken up in parcels, sold to union leaders who resold it and gained an advantage of some $59,000.

A local of the Operating Engineers unit in Philadelphia lost their local autonomy in about 1941. The International Union, through a system of supervision, took possession of the assets, collected dues, worker permit payments, and even a 5% kick-back from the workers. When the local union regained possession of their union in 1948 they had to sign a stipulation agreeing not to demand an accounting of money that the International officers had taken from them. It may run upward of a million dollars, perhaps up to four million dollars.

The need for the regulation of these funds is self-evident. Unions are not small business. The annual income from dues amounts to over $600 million a year. The pension and welfare funds have reserves running between $25 and $30 billion and have an increment of $5 billion a year.

Federal Democracy

Secondly, there must be legislation that will insure a greater control of unions by union members. The principle of checks and balances must have a place in the self-government of labor organizations. Government should not dominate unions, but our laws should provide that voting methods, nominations, election of officers and delegates, and methods of holding conventions should be in the hands of the rank and file of members and not governed from the top down. Workers should no longer have their unions run by trustees supervisors, goons and guns. The President of this same Philadelphia local of Operating Engineers testified that the International seized its assets and took control at the point of guns in the hands of their goons.

The McClellan Committee has brought to light one case where the members of a local union have had nothing to do with choosing their officers or running their union since the local was founded in 1929.

The San Francisco local of Operating Engineers, which I have previously mentioned, held an election at which time about 2,000 men voted. Four union leaders proceeded to a cabin in the mountains to count the ballots. They counted 500 and got tired and decided to estimate the returns. Even though only 2,000 men voted, by the time they got through with their estimating the winning slate won with votes of over 17,000.

Secondary Boycott

Third, the secondary boycott is economic blackmail and it should be outlawed. I have a bill on that subject, S. 76, which I introduced months before the McClellan committee was created. I hope that it can be enacted into law.

Secondary boycotts have been carried on in different forms. They have applied to transportation companies and have interfered with the flow of goods through commerce resulting in damage to consumers and to innocent and neutral businesses. Boycotts cause costs to rise, and all sorts of trouble for many people including contractors. The wide use of the secondary boycott by Walter Reuther's UAW-CIO will be fully exposed in our hearings on the Kohler strike. The products of the Burt Manufacturing Company of Akron, Ohio have been boycotted throughout the land for 10 years. This economic war has been carried on against the public even though the Burt Manufacturing Company has a certified union, which their own workers prefer, and there is no dispute over wages and hours.

When individuals in businesses are boycotted, goods become scarcer, the consumer has a lesser choice, and he pays a greater price. How can a government that pretends to be concerned about the public welfare continue to fail to enact laws to outlaw the secondary boycott?

Political Funds

Fourth, we need a more effective method for preventing the use of union funds for political purposes, such as making political contributions, providing research, furnishing manpower, and the use of publications to support candidates, parties and issues, oftentimes contrary to the individual member's views. Two universities have conducted surveys among union members on the question of whether or not they wanted to have their union in politics. Those surveys report that 66% of the union members did not want their union engaged in politics.

What right has a Michigan union czar to take money that workers pay in dues in that state and contribute that money to a political party operating in a far state?

When Walter Reuther was before the Committee on Privileges and Elections of the Senate upon which I serve, he recommended that all political contributions be limited to $5. I asked Mr. Reuther if he knew one Roy Reuther. He replied that that was his brother. I stated that I had the records before me where Roy Reuther had contributed $5,000 in a senatorial campaign in the state of Kentucky in 1954. Walter Reuther's reply

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*An address by Mr. Curtis before the 39th Annual Convention of Association of General Contractors, Dallas, Texas, Feb. 12, 1958.

By Growth Obsessed

By BASCOM H. TORRANCE*
Vice-President, and Chairman of Trust Investment Committee
City Bank Farmers Trust Company
New York City

Principal topics discussed by Mr. Torrance, in recapitulating the trustee's role in our unpredictable society, include legal and moral aspects of the problem of purchasing power protection, and crucial importance for keeping one's perspective and sense of balance in deciding extent to which trustmen should rely on any type of security. The banking official attributes confusion in recent years over the relative emphasis on the objectives of probable income and probable safety of capital in trust administration to our concern over inflation and "utter enchantment with the idea of growth." Suggests no new philosophy of trusteeship be undertaken based on record of past 15 years, but that a longer look and other governing factors, which he reviews, be considered.

I

I am taking as a text those familiar words which admonish us to have regard for "the probable income as well as the probable safety of the capital to be invested."[1] I am choosing these ancient phrases not simply because they express the very heart and substance of trusteeship and because they emphasize the dual, sometimes the conflicting, objectives of trust investing; but chiefly because in recent years it seems to me there has been some confusion as to the relative emphasis these twin objectives deserve, and some uncertainty as to the basic meaning they may hold for present-day trustees. The causes of this confusion, this uncertainty, are our concern over inflation and our utter enchantment with the idea of growth. These, in turn, are by-products of our phenomenal boom of the past 15 years in business, and the stock market.

Bascom H. Torrance

It is hardly necessary to remind anyone of the dimensions of this boom. By now I think it is recognized as one of the most dramatic periods of sustained economic expansion on record. During this time, Gross National Product has grown from an annual figure around $159 billion to an estimated $434 billion, corporate earnings from close to $9.5 billion a year to above $20 billion, dividend payments from about $4.25 billion to over $12 billion; and the Dow-Jones Industrial Average has climbed from around 92 to a record-breaking high in 1956 fractionally above 521, a good part of this advance coming in the last 5 years.

Unhappily, concurrently with this wonderful growth, the purchasing power of the dollar has been in one of its periodic declines, so that at the moment it stands at one of the low points, perhaps the low point, of its cyclical swings for the past 150 years. Small wonder then that a record rise in stock values and dividends, while the value of the dollar was falling, has led many investors, especially those whose business experience has encompassed chiefly the past 15 years, to conclude without further question that the obvious protection for purchasing power, if not the only sensible investment program, is the purchase and holding of good stocks.

So obsessed by growth had many investors become in recent years that any stock which did not sell at a fantastic price-earnings ratio, and yield only a niggardly current income, had an almost automatic demerit against it. To some persons, income, or even an interest in income, had become almost a stigma, a mark of decadence; to others, any form of contractual investment was "strictly for the birds," a type of thinking which completely ignores the fact that bonds and stocks serve different purposes. We don't buy swimming suits to use as overcoats, but both garments have their place in our wardrobe.

Hence the confusion I have mentioned between the dual objectives of probable income and probable safety. If there are such things as ghosts, I am sure the shades of those judges who were sympathetic to the view that the life tenant is generally the primary object of a settlor's or testator's bounty are listening when the widow with small children to bring up comes to your desk asking for income. They know that she cannot wait five years, 10 years, or perhaps longer, for a low yielding stock to build up to a respectable return. True, in recent months, with our business boom tapering off, and with some of the overgrown beanstalks of the stock market beginning to droop, there has been some return to soberer views. Nevertheless, our concern over purchasing power, and our enchantment with growth, still remain. Therefore, before we decide to build a whole new philosophy of trusteeship, including new measurements of performance, largely on the record of the past 15 years, it will be well to take a little longer look.

II

A Backward Glance

Suppose we begin by remembering that fluctuations in the value of money are almost as old as money itself. Ever since man invented the economic device of a medium of exchange, there have been fluctuations from time to time in the value of practically every legal tender that has ever served as money. Some of these fluctuations were of little consequence; a few were disastrous. Just as persistent as these recurring fluctuations have been man's recurring efforts and stratagems to protect himself against them. The Romans were well acquainted with both deflation and inflation. The Emperor Augustus undertook to control the rates charged by money lenders, Tiberius sponsored government loans to farmers, and price-fixing was tried by Diocletian. In Elizabethan times the colleges of Oxford and Cambridge leased their lands in corn rents, and thus escaped the effect of rentals payable in depreciated money. In Revolutionary times in our own country, with inflation so rampant that butter sold at one time above $10 a pound, and flour at more than $1,000 a barrel, in Continental currency, Massachusetts actually experimented with a tabular standard, paying its soldiers in the Continental Army in notes redeemable not in currency, but in stated quantities of such stable products as wool, corn, beef, and shoe leather. In the early years of this century, many of you will remember Irving Fisher's commodity dollar; and more recently there have been proposals for issuance by the Treasury of Savings Bonds redeemable at premiums to compensate for a rising cost of living. So the story goes. From time to time, gold, commodities, real property, foreign currencies, stocks—all have been resorted to. There is not time here to discuss in detail the virtues, the defects, and the highly erratic record of these various historical attempts at protecting purchasing power. The important point is that no one sure or magic method has emerged. Currently our interest has turned to stocks, which are to be discussed later.

No Legal Obligations in Terms of Purchasing Power

For trustees the thing that strikes home is the fact that throughout this long period of fluctuating money neither law nor custom has ever specified or required preservation of purchasing power, or judged a trustee's performance in terms of purchasing power. It is interesting to ask why. Certainly there is no reason to assume that trustees have been any less concerned than others over loss of purchasing power. On the contrary, the whole history of trusteeship is a long record of effort to provide protection against economic adversity. From the first century of the Christian era, when the historian Josephus was speaking of a trust as a "sacred and divine thing," on down through the English common law to our own statutes and judicial decisions, the object has been to make the trust device a refuge for those who sought security. Why, then, this absence of any legal obligation in terms of purchasing power? To me there are several reasons.

The Reasons Why

First, there may be an implicit recognition that the cause and the cure, if there is any, of inflation lies outside the trust field, in the larger areas of economics and politics, in the wastefulness of war, and in all the myriad factors that contribute to the chronically cyclical nature of our economy.

Next, there may be the inhibiting influence of the old and oft repeated injunction against speculation, and recognition that many attempts at preserving purchasing power are by their nature speculative.

But most important, it seems to me, is the simple fact, already referred to, that no one has yet found a cure or universal means of accomplishing the desired result.

Besides, there are practical difficulties. Presumably, purchasing power would be measured by the Consumers Index of the Cost of Living. Even here, with the refined and improved index we have today, the individual components of the index are not of equal importance to everybody. In some things, both goods and services, a dollar, which is the same dollar to everybody, today buys far more than in former years.

Again, for whom do we preserve purchasing power, for the life tenant or the remainderman? The purchasing power of the dollar can rise while dollar values decline. In 1933, to cite just one example, with the purchasing power of the dollar more than 40% above 1929, I do not recall that either remaindermen or life tenants came in to tell us how happy they were about declining dollar values. A corollary question, if we should undertake to give new legal status to a measurement in purchasing power, is whether trustees would get credit for rising purchasing power in

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*An address by Mr. Torrance before the 39th Mid-Winter Trust Conference, American Bankers Association, New York City, Feb. 11, 1958.

1 Harvard College v. Amory, 9 Pick. 446, 461 (Mass. 1830)

Puerto Rico's Raw Materials

By MORRIS MOSES*
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San Juan, Puerto Rico

Mr. Moses reviews physical resources of Puerto Rico, mineral based industries, and guidance provided by feasibility projects to determine whether commercial opportunities exist. The economic consultant finds that a great majority of promoted plants use little or no local raw materials but depend, as do firms in the United States, upon material flows from other areas in meeting the acid test of achieving lowest cost, maximum investment return and retained profits. Explains how plants automatically generate more supplies and markets—leading to greater integration—as in the case of oil refineries inducing petrochemical plants.

Puerto Rico is a paradise. It has an ideal climate, beautiful beaches and countryside, a healthy and energetic population, and a stable government. It has everything, that is, except enough jobs, capital, and raw materials. Part of my job is to see what can be done about increasing the supply of raw materials and utilizing what we have to the best advantage.

Let us see what Puerto Rico has plenty of in its own right. We can count them on one hand: sugar, limestone, clay, and silica. In a typical year we will produce about 1¼ million tons of sugar, 60 million gallons of molasses, and 1½ million tons of bagasse, the residue of sugar cane. Most of the sugar and molasses is shipped here and almost all the bagasse is burned as fuel. Our Industrial Laboratory has done pioneer research work on chemical and industrial uses for sugar and its byproducts. Some of the research has reached the stage where the technical problems are solved. We are attempting to determine whether commercial scale operation is feasible. Right now we have perfected a dry process for making hardboard from bagasse without the addition of resins. If some questions about marketing the product are answered satisfactorily, the process will be made available to private industry. As you know, W. R. Grace and Co is setting up a mill to make paper from this bagasse. A syndicate with experience is considering the manufacture of insulating board and hardboard from bagasse. Yet these enterprises would make barely a dent in the supplies of this important fiber source. Less than 5% of the bagasse produced each year would be consumed by these two multi-million dollar projects.

Mineral Based Firms

As for minerals, we are working constantly to learn more about what we have. We know that much of Puerto Rico consists of limestone and some random analyses suggest that reserves of pure limestone are very large. By pure I mean pure enough for chemical and industrial uses. The reserves of dolomite and dolomitic limestone remain to be determined but indications are that they are substantial. Among the clays, the red burning type is almost unlimited, and other kinds like refractory, white-burning, and feldspar are present. Large reserves of marble and granite are known to exist. Fomento Program of Economic Development Administration is financing an investigation to ascertain whether marble of dimension size can be quarried. Loose, clean silica sand of excellent quality is calculated in billions of tons. To date, its major user is a bottle factory. Frankly, I am puzzled by the failure of some firms to establish plants for the manufacture of glass fibers, flat glass, or even optical glass in view of the size and quality of these deposits. All they would have to ship in would be the soda ash. Some of our mineral based industries are cement manufacture; terrazzo, cement, mosaic, and structural tile; glass containers, and construction materials of various kinds.

The metallic minerals are almost all marginal either with respect to amounts of reserves or to metal content per ton. Among the metallic ores are iron, nickel, cobalt, copper, gold, silver, platinum, manganese, and chromium. Iron ore has the best chance for being worked commercially in the near future. Even then, the known reserves, and we must except limonite as a non-workable ore, will support only a small operation like making sponge iron. Considerable exploration and research are being accomplished for many minerals under a program conducted by our Department of Industrial Research, the U. S. Geological Survey, the U. S. Bureau of Mines, Princeton University, and private companies. The more daring may want to put money into a hole in the ground—there is a possibility that petroleum may be found in Puerto Rico and the nearby island of Mona. We have a Mining Commission which issues prospecting permits and mining leases for all commercial minerals on reasonable terms and conditions.

The timber in Puerto Rico is limited. The great variety of species per acre tends to make logging expensive. A sawmill is in the process of being established now, primarily to cut logs for excelsior to be incorporated with cement into building panels. This is an interesting example of how an unlooked-for dividend was discovered for a prospect. This gentleman had already started the construction of two plants, one to use wood excelsior and the other bagasse, as lightweight aggregates in his building materials. He consulted us about the best way to transport the lumber he needed for his excelsior machines. We gave him the information and then suggested that a local source of wood might be explored. We visited the Tropical Forest Research Center of the U. S. Forest Service where he was given samples of wood for testing. As luck would have it, the most common tree, Yagrumo, proved to be superior for his purpose. It is well worth his while to build a sawmill because his operation is so large. We had already finished a feasibility study on this subject so that we had all the basic information which our client needed. We are happy because up to now yagrumo had been a weed wood of no value. He is happy because he saves lots of money. We have to teach the rural people how to log these trees so Fomento has brought in a Forestry expert to

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*An address by Mr. Moses at the Briefing Conference on "Doing Business in Puerto Rico" sponsored by Bureau of National Affairs, New York City, Feb. 6, 1958.

Thrift Institutions' Activities In the Mortgage Market

By SAUL B. KLAMAN*
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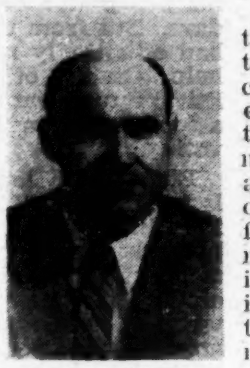
Author of a forthcoming study on mortgage companies assesses marked differences in reactions by life insurance companies, savings and commercial banks, and savings and loan associations to principal factors affecting the mortgage market as a basis for providing an insight as to what we may expect from these thrift institutions in the present and the future. Economist Klaman weighs the possible effects of a terminating VA loan, and increasing FHA, program; notes a close correlation between mortgage companies and Federal mortgage program, and the dependence of mortgage companies on life insurance firms if conventional lending increases; and predicts 5¼% FHA loans will, with discounts, be in demand in 1958, and total net increase in mortgage flows at 5% to 8% higher than $8 billion in 1957.

In the affairs of finance, thrift institutions and mortgages are as natural a pair as Rodgers and Hammerstein, steak and mushrooms, or Romeo and Juliet. This close association, moreover, has endured with a varying degree of affection, for about a century and a half, as long as thrift institutions have been on the American scene. The degree of affection with which these institutions will regard mortgages in the years ahead will undoubtedly vary, as it has in the past, with changes in the relative attractiveness of other suitors for funds and with changes in the financial and economic climate generally. Clues to future variations in investment behavior of the main types of thrift institutions — mutual savings banks, savings and loan associations, and life insurance companies—may be found in the record of their past activities.


Saul B. Klaman

To achieve some perspective, it is of interest to note that while each of the main types of thrift institutions have, from their earliest days, depended heavily on mortgages as an investment outlet, it has been only within recent years as time is measured that the mortgage market has become heavily dependent on thrift institutions. Back around the mid-19th century, for example, mortgages constituted the largest single asset of each of these institutions, representing 80 to 90% of the assets of life insurance companies, a similar proportion of the assets of savings and loan associations, and well over one-half of the assets of mutual savings banks.

Fifty years later while still investing the bulk of their funds in mortgages, the thrift institutions held only about one-third of the total nonfarm mortgage debt then outstanding. At that time individuals and other non-institutional investors were still the main sources of mortgage credit. With the continued growth of thrift institutions, their importance in mortgage markets increased, though unevenly under the impact of the depression and war years. By the end of World War II, they held about one-half of the nonfarm mortgage debt compared with two-fifths in 1920. Over the years, except for the war when Government securities were acquired in large volume, mortgages have continued to be the prime investment outlet for savings banks and savings and loan associations but have never again dominated the assets structure of life companies.

*An address by Mr. Klaman before the Annual Conference for Senior Executives in Mortgage Banking at the Graduate School of Business Administration of New York University, New York City.

Sharp Increase in Holdings

The greatest relative growth in the participation of thrift institutions in mortgage markets has come in the dozen years since the end of the war, during which time the net flow of nonfarm mortgage funds from these lenders amounted to almost $80 billion out of a total nonfarm mortgage flow of $115 billion. This dominance of postwar mortgage lending activity by savings institutions increased their holdings to almost two-thirds of the total outstanding nonfarm mortgage debt at the end of 1957. Within their own asset structures, mortgage holdings increased from less than ⅙ to over one-third for life insurance companies, from less than one-fourth to three-fifths for savings banks (the highest proportion on record), and from less than two-thirds to well over four-fifths for savings and loan associations. Similar sharp gains were recorded relative to the flow of savings into these institutions between 1945 and 1957.

The extraordinary expansion in mortgage activity of savings institutions relative to other market participants and to other types of investment reflected, the unusually liquid position of financial institutions and the strong pent-up demands for housing and other real estate facilities at the end of the war. Neither of these conditions exist today. Each of the main types of financial institutions held a larger amount and proportion of their assets in Government securities at the end of 1945 than in any preceding year. Conversion of these large holdings into higher yielding assets and development of new investment outlets for the inflow of savings were common goals. Federal Reserve support of Government bond prices through early 1951 made it possible to sell such securities readily and without penalty. As a result, liquidation of Treasury obligations proceeded rapidly during the period of support and provided a large reservoir of funds to meet private demands from the capital market.

At the same time the Federal Government expanded and liberalized its mortgage underwriting programs and secondary market facilities. These actions, in conjunction with generally expansive Federal monetary and fiscal policies created a financial climate in which yields and other considerations associated with mortgage loans were especially attractive to financial institutions. The speed of conversion from Governments to mortgages varied among financial intermediaries reflecting differences in policies, legal restrictions, and organization problems. Notwithstanding basic institutional differences, however, it is clear that each of the three main types of savings institutions regarded mortgage investments with maximum or steadily increasing favor from 1946 through 1950.

During these years, savings and loan associations devoted all of their net capital market investments to mortgages, mutual savings banks expanded their net mortgage investments from less than one-eighth to well over nine-tenths of their total net capital market flows, and life companies increased the proportion of their net capital market flows going into mortgages from about one-seventh to three-fifths.

Commercial banks behaved quite differently from the thrift institutions in this period committing a much larger share of their net loans and investments to mortgages in the immediate postwar years than in any subsequent year, a mortgage flow much larger than the flow from other institutional investors. This unique action reflected the basically different investment programs and objectives of commercial banks and the markedly greater volume of Governments held by them than by the savings institutions.

Cut-Off Date of 1951

The universal favor which mortgages found with institutional investors in the first half of the postwar decade ceased with the abrupt change in the financial climate wrought by the Federal Reserve-Treasury "accord." March 1951 is an historic date in the financial world. It marked the end of the nearly unlimited liquidity enjoyed by financial institutions and the beginning of a flexible monetary policy which has had as much if not more influence on mortgage market conditions, and on the role of thrift institutions in the various sectors of the market as any other single factor. The reactions of the major types of savings institutions to subsequent changes in monetary policy and in overall capital market conditions varied in accordance with their fundamental differences including their degree of specialization in mortgages, types of mortgages preferred, and opportunities for alternative investments. It is these differences in reactions to changes in the investment climate and in basic mortgage operations which it is important to assess if we are to evaluate the future role of thrift institutions in the mortgage market.

Relative Yields

While financial institutions with broad alternative investment outlets have adjusted their mortgage flows more frequently and widely over the past few years than lenders with limited outlets, all types of investors adjusted their flows in accordance with changing yields. Thus, not only life insurance companies but mutual savings banks and savings and loan associations reduced their share of net capital market investments going into mortgages during the 1951-53 period of capital market stringency and rising yields on alternative investments. For life insurance companies and mutual savings banks the relative reduction reflected chiefly a favoring of corporate securities relative to mortgages; for savings and loan associations it reflected the acquisition of Treasury obligations at increasingly favorable yields following liquidation in earlier years.

The subequent easing in monetary policy and capital markets after mid-1953 was accompanied by a sharp relative and absolute expansion in funds devoted to mortgage investments to be followed by an equally impressive contraction in the past year or so in the wake of the return to capital market stringency and and monetary tightness. Within these broad similarities of movement lie important differences in degree of change, in timing, and in types of mortgage investments which are basic to an understanding of present and future operations of savings institutions in mortgage markets. Reference to a few figures at this point will illuminate the nature of differences in investment reactions to changes in capital market conditions.

Life Insurance Slower Reaction

Comparison of net mortgage flows with the supply of long term funds available to each type of institution indicates the much stronger reaction, as well as the longer lag in response, of life companies than of other savings institutions to changes in the financial climate. This is a reflection both of the wider investment opportunities available to life companies and the greater influence of the mortgage commitment process on their operations. In 1950, for example, net mortgage acquisitions of life companies amounted to $3.2 billion, larger than those of any other type of investor and nearly three-fourths of their net increase in assets. This amount and ratio was maintained well into 1951 many months after the Federal Reserve-Treasury "accord." The sharp reaction to tight money did not show up in the figures until 1952, when net mortgage flows dropped to less than $2 billion even though net assets rose substantially. The 1953 mortgage flow was only slightly larger than in 1952. It was not until 1954, months after the easing in capital markets, that total and relative mortgage flows of life companies expanded appreciably, and by 1955 had reached a new peak of $3.5 billion. Again, although monetary policy had once again tightened and capital markets were under restraint in 1956, life companies acquired as large a volume of mortgages in that year as in 1955. The sharp drop in their mortgage investments occurred in 1957 to $2.2 billion representing only two-fifths of the net increase in assets, the same amount and ratio as in 1953.

Thus during alternating periods of capital market expansion and restraint from 1950 to 1957, net mortgage flows from life companies went through a complete cycle of wide amplitude, both absolutely and relative to their available long term funds. Their lag in response to changes in the financial climate was also pronounced reflecting the lag between commitments and acquisitions which in recent years has lengthened considerably. It is of interest to note in passing that net mortgage flows of commercial banks have also fluctuated rather sharply since 1950, owing to the wide choice of alternative outlets both short and long term available to them.

S & L Assns. and Savings Banks

Compared to the fluctuation in mortgage flows from life companies and commercial banks, flows from savings and loan associations and savings banks have been considerably more stable in recent years. For savings and loan associations, net mortgage flows actually increased substantially (after a slight pause in 1951) throughout the early period of credit stringency and accelerated during the shift to credit ease to an all time annual peak for any type of lender of $5.3 billion in 1955. In that year the associations had been relying heavily on borrowings from the Federal Home Loan Banks to finance their sharply expanded lending activi-

Continued on page 28

THE MARKET . . . AND YOU

By WALLACE STREETE

Stocks enjoyed a rally running for several days for the industrial section this week but without the cooperation of the rails and utilities which indicated that so far it was mostly a technical rebound after February's general price erosion.

* * *

Support had shown up when the industrials declined to around the 435 area which was the case on several sinking spells late last year and nothing in the way of a significant peak is yet in sight that could indicate a breakout on the top side.

Unfavorable Earning Reports Awaited

In fact, there was little sentiment favoring any upside breakout. Certainly the news background was not one that called for buying enthusiasm what with dividend cuts and omissions reaching a crescendo not seen in a score of years. Earnings reports are far from cheering, in most cases a good first half or first three quarters bolstering the annual reports now being issued. The nearly universal tales of a sick final quarter more or less guarantee that the 1958 first quarter results, to start wafting over the market next month and reach a peak around May, will add considerably more fuel to the pessimism.

* * *

What was apparent from the dividend news was that the market did a good job of discounting the bad news well in advance. The issues featuring in this unhappy news were generally unruffled and a good many held above their 1957-58 lows easily. In some cases where the news was expected to be even more unfavorable than it turned out, there were buoyant periods for the affected items even as the news was circulating.

* * *

Bucyrus Erie was one that took a halved dividend a bit hard but it, too, held above its low on the first shock despite a one-day loss of more than 11% of its value. Seaboard Air Line's reduction was greeted placidly. And so it went. Tabulations of dividend omissions and reduction so far this year already have soared well over the century mark.

Oils Do Better

For the first time in a long while the oils were able to shine when the market climate was good but here again the case seemed to be mostly a rebound after the section had been well depressed without any overriding news background demanding better action. Some of the companies were given to optimistic predictions and there was a bit of inventory trimming evident but most of the industry barometers were still in a trough.

* * *

It was the same with other industrial groups. From the steel industry came predictions that the bottom of the recession here was close by. The thinking, as the Jones & Laughlin officials put it, is that since users of steel have been trimming around a million tons a month from inventories, they are approaching a point where the liquidation will have depleted stocks to the point where new orders are mandatory. Actually, however, even this company estimates that last year's inventory peak of 22½ million tons will have to be cut to 12½ million or so before the turn comes so there is still some more liquidation possible.

Soft Goods Issues at Highs

The "soft goods" industries were the sturdy ones so far in the recession, with food, tobacco and store issues forging to new highs with persistence. Even Lorillard in the tobaccos, which had been something of a wonder issue through 1957 still showed no sign of running out of steam and only paused occasionally for a breather. The company's annual report showed per share earnings of $3.79 against $1.34 the year before, which was a good showing. However, the final figure was in the upper range of the $3.65-$3.80 that had been bandied around in advance. Moreover, the quarterly improvement in results through 1957 showed a strong uptrend of 36 and 48 cents, $1.02 and $1.93.

* * *

Finally, industry reports are that the company is keeping up the pace and could show $2 or better for the first quarter this year to bolster 1958 results. Since the company has a reputation for a large dividend payout when the going is good, the expectation is that the recently hiked regular rate will be larded with a substantial extra since the increased rate is only $2 a share. To the technicians, even if the pace flattens this year and 1959 earnings fall short of doubling over last year, a return of the issue to its classic 10-times-earnings still leaves a bit of room on the top for the stock which, though, has to be tempered a bit in case of new health scares cropping up at some future time.

Growth Sector Neglected

With the market picture so uncertain, there was little stress on the "growth" items, such as Litton Industries which, in the short span of five years, has become an important factor both in electronics and office equipment, either of which could spark good action in a better market. In partial explanation, some of the excitement over its merger with Aircraft Radio Corp. fell apart when the required stock wasn't obtained.

This was only a temporary setback since the company seems certain to continue its record of picking up likely acquisitions. Its latest, Monroe Calculating, more than doubled its sales potential by adding some $50 million to the sales picture. Aircraft's potential was only $10 million. The company policy up to here, and no change is expected, is to remain dividendless, as far as a cash payout is concerned, and concentrate on future growth. Despite its steadily growing earnings record, the stock dropped from above 56 at last year's peak to below 40 currently.

The chemicals—once billed as the premiere growth group—have been restrained, too, as far as the market is concerned. There aren't many in the group that are likely candidates for bad dividend action even though earnings were ragged last year and, if the economic upturn doesn't arrive early, could be moderately lower again this year. All of this has dropped prices back to more normal ratios against the high price-earnings figures that prevail in bull swings. Union Carbide, for instance, has sold at better than 25-times earnings at its peak in the last handful of years, but lately has slipped below 20-times. From a below 3% yield the price has declined to where the yield lately has been above 4%. As one source put it: "when corporate earning power does recover, a well-run diversified and expanding company such as Union Carbide will be one of the first beneficiaries."

New Diversifier

An outfit that has changed its nature vastly in recent years that is a factor in the chemical field is Food Machinery & Chemical. Once its principal business was machinery for fruit and packing industries. It now is in petrochemicals, farm equipment, chemicals, consumer items such as lawn mowers, and is participating with National Distillers and American Potash in exotic fuels. To its followers it has more growth potential than the more familiar, established giants that dominate the chemical field.

[The views expressed in this article do not necessarily at any time coincide with those of the "Chronicle." They are presented as those of the author only.]

From Washington Ahead of the News

By CARLISLE BARGERON

There is something highly hypocritical about the House committee's investigation of pressures against Federal regulatory agencies when the worst pressures come from members of Congress themselves. If that situation is ever changed there will have to be a change in human nature. Everybody at one time or another writes his Congressman asking for everything under the sun. He wants all the way from a Department of Agriculture pamphlet to a pension, or a job or a subsidy. They want radio and TV licenses, they want air line routes, they want a government contract. As long as they want these things and importune their Congressmen for them, the manifold regulatory or purchasing agencies in Washington which deal with these matters will be under pressure from members of Congress to deliver them.

Carlisle Bargeron

The same goes for the White House. According to the well-founded scuttlebutt in Washington the House committee investigation to inquire into the regulatory agencies came from a feeling among Democrats that they could embarrass Sherman Adams, the assistant to the President. There is not the slightest doubt that the White House, in this as in other Administrations, exercises influence over the regulatory agencies. To just what extent is hard to tell.

An applicant for an airplane route or for a radio or TV license, being denied his request, for example, will appeal to the White House. It is a good old American right.

Of course, the White House could in these cases answer the plaintiff with a statement that the particular regulatory agency is the last court in the matter but I have never known of a White House that has taken such a stand. In a democracy, the White House may consider, or in the great game of politics, it certainly does consider, the plaintiff is entitled to better treatment. He is entitled to a letter saying that his case has been taken up with the particular regulatory agency. It may be that the White House will only forward the correspondence to the regulatory agency. But human nature being what it is, the White House may do something more than this. It may express an unusual interest in the "fairness" of the plaintiff's case in which instance there is a strong hint that the White House is displeased at the regulatory agency's decision. This, of course, makes the White House, or a man like Sherman Adams, a very powerful figure but has anyone ever doubted that he is that.

I do not know how the system is going to be changed. Under any form of government certain men have more power than others. The difference is that in a totalitarian form of government a much smaller clique has this power and the clique has nothing to worry about exposure. In our government the threat of exposure is always prevalent.

In Washington there is a general feeling of sympathy for Federal Communications Commissioner Mack. The movement which is generally believed to have started with a vew to embarrass Sherman Adams, has instead ruined this timid little fellow, whom the general feeling has never had an evil thought in his mind.

This is not to say that he hasn't caused the FCC plenty of embarrassment and that his resignation was not in order. His vote on the commission had not a thing to do with the successful winner of the celebrated Channel 10 award in Miami. Had he abstained from voting the result would have been the same. The fact is that the unsuccessful applicant who raised all the stew had only one vote on the commission in his favor. Mack, according to the evidence, had been subjected to all sorts of pressure. From one side it came from the two Senators, Smathers and Holland of Florida, who had gotten him his job. From the other side, it came from a man who had been his benefactor ever since college days. But from the benefactor he had admittedly received financial help. On the other hand his political future was at stake. He was a fool not to have abstained from voting.

But what I am waiting to see is for Congress to pass legislation introduced by a couple of purportedly indignant Congressmen to make it illegal for anyone, including members of Congress, to write a regulatory agency about any matter pending before it. When that happens I will believe the millenium has arrived.

Warren, Sealy Are Partners in Grimm Co.

Grimm & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, announced that Robert H. Warren and Robert Sealy, Jr., have been admitted to general partnership in the firm.

Mr. Warren formerly was a Vice-President of Blair & Co. Inc. and Mr. Sealy previously was a partner in Moore & Schley.

William D. Coddington will become a limited partner in the firm March 13.

With Columbine Secs.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Lee D. Iwata has been added to the staff of Columbine Securities Corp., 1575 Sherman.

With C. M. Hathaway

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Howard B. Stewart is with C. M. Hathaway Company, Farmers Union Building. He was formerly with Columbine Securities Corp.

Mitchum, Jones Branch

RIVERSIDE, Calif. — Mitchum, Jones & Templeton have opened a branch at 6363 De Anza Avenue under the direction of Henry G. Winans.

With G. H. Walker

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Raymond L. Patterson has become connected with G. H. Walker & Co., 503 Locust Street, members of the New York and Midwest Stock Exchgs.

Joins Yates, Heitner

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Frank P. Williams has become associated with Yates, Heitner & Woods, Paul Brown Building, members of the New York and Midwest Stock Exchanges.

Typical Questions Often Asked Of Municipal Finance Consultant

By ROBERT E. TOOLAN*

Wainwright & Ramsey, Inc., New York City

Who are the typical questioners, what are the questions most frequently asked and why are such questions raised, are the points raised by questionee Toolan in explaining the role and functions performed by consultants on municipal finance. Consultant Toolan, in an aside, advises analysts and investors that an information meeting should be their cue to prepare themselves in advance in order to raise questions about a financing more complicated or involved than is usually the case

Who Asks Them?

These technical questions are quite naturally asked in the main by the bond analysts of the various investment houses which expect to become participating members of a syndicate formed to bid on a proposed bond issue prepared under the supervision of the Consultant. Oftentimes questions are asked by salesmen of these firms, independently of those asked by the bond analyst of the same firm. This situation occurs since the analyst is not always readily available nor fully enough informed to answer the salesman's queries. Many questions are asked by the staffs of the independent professionals, i. e., the rating and/or credit agencies, and investment counselors who report on and make recommendations concerning the proposed bond issue to their subscribers and clients.

Robert E. Toolan

Another source of frequent questions is the investment research staff of the potential purchasers of the bonds, such as insurance companies, trust companies, pension funds, fraternal organizations, endowment boards of various institutions, etc. Occasionally, the Consultant is asked questions by graduate students doing financial research work on a required thesis for a master's or doctor's degree; by individuals who are interested in checking a point which appeared in a bond dealer's promotional circular on the bond issue; by newspapers and trade journals; and by state and local government agencies in the home state of the municipal jurisdiction issuing the bonds.

Why Are They Asked?

Since prospecti or official statements and other material are distributed and information meetings held prior to the bond sale, one may logically ask, why then is the Consultant asked so many questions by the aforementioned parties?

This question is answered in part by the make-up of the material furnished. In preparing the official statement the Consultant, while fully cognizant of his duty to observe the doctrine of full disclosure, must realize the necessity of editing all available information and make sure that it is sifted down into a presentation that is a factual, concise description of all the salient features of the financing that an investor must know. The Consultant must exercise judgment in the preparation of the official statement so as to give the investor enough information to be able to form an opinion and yet not so much detail that it becomes confusing. Experience has shown that using this type of approach makes for a more effective official statement; however, since each bond analyst and investor thinks independently, it is inevitable that some detail questions will arise which have not been covered in the official statement.

Another reason why questions are asked of the Consultant is the fact that vacations, peak work loads and the other daily pressures of business may be so combined as to make it impossible for the analyst to find time to attend the information meeting, or to read fully the available material on the proposed bond issue. Incidentally, the very fact that an information meeting is being held should tip off the alert analyst or investor that this piece of financing is somewhat more involved or complicated than usual, and that he would be well advised to read fully the available material on the bond issue so that he will be sufficiently informed to ask intelligent questions at the information meeting. The information meeting affords the best opportunity for the analyst and investor to meet and form first hand impressions of the management and the team of legal, engineering, financial and other technical experts who have assisted the management in preparing the material on the project to be financed.

What Are the Questions Asked?

The ten questions listed below (some of which are discussed) are among the most frequently asked of the Consultant:

(1) What are the integrity and ability qualifications of the

- (a) management of the issuing body
- (b) consulting engineer engaged by the management
- (c) bond counsel engaged by the management?

If the document presented to the bidding houses and various investors is an official statement signed by an official of the issuing body, it could not very well make objective comment on the above question, hence, it is asked of the Consultant.

(2) What is the assurance of a continued source of supply?

If the bond issue is a utility revenue issue, has the engineering report demonstrated that there is an adequate source of water, electricity, or whatever, for at least the life of any outstanding bonded indebtedness?

(3) What are the provisions for issuing additional bonds?

The investor always wants to know what are the factors involved in an earnings test which will permit the issuance of additional bonds; whether the additional bonds will be of equal, prior, or junior lien to the bonds of the proposed and outstanding issues and what will be the dilutionary effects of the provisions for issuing additional bonds?

(4) What are the call provisions on the proposed bond issue and can bonds be called from:

- (a) certain moneys in excess of all fund requirements
- (b) general fund moneys alone
- (c) sinking fund moneys alone
- (d) a combination of moneys from (a), (b) and (c)?

(5) Are bond calls mandatory or discretionary?

(6) What are the provisions for calling bonds in the event refunding operations are contemplated?

(7) Should a situation exist whereby it is cheaper or otherwise more advantageous for the issuer to retire bonds via open market purchase as against a published call, is this permissible?

(8) If a city grants a franchise of some 50 years duration to an arm of its government, such as a water or sewer board, or perhaps a joint water and sewer board and 30 years later the board desires to float a serial bond issue with a maximum maturity of 30 years, how can the bond holder be sure that the last ten maturities will be paid off since the remaining franchise life is only 20 years?

In this case the proceedings authorizing, establishing and creating the board would at the same time provide for the transfer of title to all the personal and real property (and constructions thereon) necessary for proper operation of the utility system by the board. Thus, it is presumed that the City would extent the franchise life granted to the board for a term at least equal to the maximum maturity on any of the board's outstanding indebtedness.

(9) Assuming that a municipal utility has contracted to purchase power wholesale for a period of 15 years and convenants to pledge the net revenues received from the retail distribution of this same power to the payment of the principal of and interest on a proposed 30 year bond issue, how can an underwriter be assured of a continuing supply of wholesale power for the last 15 years of the bond issue?

The underwriters best protection in this instance is to be convinced that there is a continuing economic need for this retail power and that the municipality has a management that has demonstrated an ability to anticipate such developments and that is capable of negotiating new contracts at favorable terms where necessary or making other adequate advance provision for taking care of such contingencies. Then too, the very circumstance that appears to be a liability may well be turned into an asset in as much as it may be the municipal utility's policy at the expiration of the existing contracts to construct its own generating facilities?

(10) Each investor is concerned about the flow of funds and is particularly interested in knowing it after provision has been made for paying the expenses of maintenance and operation of a revenue project are there any charges that enjoy a prior or equal lien to debt service charges.

While the incidence of the above questions is by far the greatest of those posed to the Consultant they represent at best only a portion of the large variety that the Consultant is called upon to answer.

*An address made by Mr. Toolan before The Municipal Analysts Group, New York City, Feb. 14, 1958.

Named Director

Clarence E. Goldsmith, a limited partner in White, Weld & Co., investment banking firm, has been elected a director of El Paso Natural Gas Company.

Mr. Goldsmith, who was a general partner in White, Weld & Co. from 1940 to 1956, joined the investment banking firm in 1930.

Whitehouse to Admit

On March 13, August J. Hoffer will be admitted to partnership in Whitehouse & Co., 115 Broadway, New York City, members of the New York Stock Exchange.

Merrill Lynch Group Offers Public Service Elec. & Gas Pfd. Stock

Merrill Lynch, Pierce, Fenner & Smith and associates yesterday (March 5) offered 250,000 shares of Public Service Electric & Gas Co. 5.05% cumulative preferred stock, $100 par, at $102 per share and accrued dividends.

Net proceeds from the sale of the shares will be used by Public Service for general corporate purposes, including payment of a part of the cost of its current construction program.

The stock is redeemable at the option of the company at redemption prices ranging from $108 per share on or before March 31, 1963 to $103 per share on or after April 1, 1973, in each case plus accumulated and unpaid dividends to the date of redemption. However, prior to April 1, 1963, none of these shares may be redeemed from proceeds of any refunding through the incurring of debt, or through issuance of preferred stock where such interest cost or dividend cost is less than the dividend cost of this stock.

Public Service supplies electricity and gas to about two-thirds of the population of New Jersey. During 1957 operating revenues totaled $322,488,939, of which approximately 69% was derived from electric operations and 31% from gas operations.

Giving effect to the sale of the new preferred stock, outstanding capitalization on Dec. 31, 1957, consisted of $566,910,600 long-term debt; 999,995 shares of $100 par preferred stock; 2,534,515 shares of $1.40 no par dividend preference common stock, and 12,209,654 shares of no par common stock.

Richard Kohn to Admit

NEWARK, N. J. — Richard E. Kohn & Company, 20 Clinton Street, members of the New York Stock Exchange, will admit Herbert M. Aibel to partnership on March 13. Mr. Aibel will acquire a membership in the New York Stock Exchange.

Irving Lundborg Branch

REDWOOD CITY, Cal.—Irving Lundborg & Co. has opened a branch office at 2600 Broadway, under the management of LeGrand A. Gould. Mr. Gould was formerly local manager for Mitchum, Jones & Templeton.

Keeping Pension Benefits In Time with Inflation

By GEOFFREY N. CALVERT*
Vice-President and Director
Consulting Actuarial Division, Alexander & Alexander, Inc.

Executive of third largest insurance brokers in U. S. A. warns companies may face serious increase in pension outlays unless they gear pension benefits directly to the cost of living. Mr. Calvert compares principal plans and contends cost of living pensions, with appropriately invested funds, not only win employee approval but subject the firm to less risk and expense than is inherent in many older types of plans currently in force. Recommends conversion, at surprisingly small or no extra cost, so long as we face prospect of long-term inflationary trend.

Pensioners are particularly vulnerable to inflation because, more than other sections of the population, they are generally living closest to the breadline, and are least able to do anything to increase their incomes. The more standard types of pension plans contain no provisions for keeping pensions in line with rising living costs. Even when they are liberalized to meet current labor demands, these changes are seldom made retroactive to existing pensioners. The pensioner thus emerges as the prime victim of inflation.


Geoffrey N. Calvert

All too often only the increase in Social Security benefits has brought relief to many hundreds of thousands of pensioners who had previously thought themselves well provided for under corporate retirement plans.

It would be unfortunate if the provision of pensions were to be taken over largely by the Social Security program, simply because corporate pension plans fail to meet the problem of continued inflation. All of the variable benefit plans in existence and in contemplation have resulted from a recognition of this problem.

Large funds are set aside each year for the provision of pensions, but are often invested without sufficient thought for the basic objectives to be served by the pension plan. For example, tremendous sums are paid each year to insurance companies, which are prevented by law from investing in anything but fixed-dollar investments, except for a very small fraction of their assets. Until recent years, trustees also generally placed pension reserves overwhelmingly into bonds and similar fixed-dollar investments.

If those kinds of investment policies are followed, the only way to keep pensions in line with living costs would be to undertake substantial new liabilities for extra pensions at such times as the problem becomes severe and the Company feels that it could afford these new liabilities. In many cases, this has not been done. Pensioners have instead been squeezed, and have become seriously disillusioned about the security which was promised them by the companies for which they had given a lifetime of service. Pressure has come on for bigger Social Security benefits.

Changes In Pension Planning

This whole situation has, however, also brought about many changes in the approach to corporate pension planning, and in the investment of pension funds, including:

(a) The swing by trustee banks into common stock investments, in order both to raise the yield of pension funds and to secure long-term capital gains which might be used to offset increased pension liabilities;

(b) The migration of pension plans from insurance companies to trust funds, in order to capture the advantages of a diversified investment portfolio, both as a means of reducing costs and of providing a hedge against inflation;

(c) The emergence of split-funding, which combines an insured fund with a trust fund, with the same objectives in view;

(d) A continued increase in the number of pension plans based on the "final-average" earnings concept, in which the pension of each retired employee is based on his earnings during the last five or ten years before his retirement;

(e) The development of the so-called "equity unit" pension, under which the pensioner generally receives part of his pension in fixed dollars per month, and the other part in the form of shares, the values of which are governed by the movements of the stock market;

(f) Finally, the emergence of the properly designed "cost of living" pension plan, providing a pension directly linked to a moving average based on Consumers Price Index.

The first three of these measures are aimed to reinforce pension funds through increased yields and capital growth within these Funds. They do not automaticallly pass to the pensioner the benefit from these improved funding operations. This would therefore require separate action from time to time. The remaining three measures are each designed automatically to provide benefits more nearly in line with living costs.

Final-average earnings plans have been criticized in some quarters as involving unknown commitments, but in fact they call for a more realistic approach to the funding of benefits than other plans which permit a company to go on blindly for years without realizing the growing necessity for readjusting its pension plan. At the same time, it could be unwise to embark on a final-average earnings plan without adopting an investment policy in keeping with the general aim to provide adequate benefits at the time of retirement. These plans, even then, do not take care of a pensioner who is caught in an uptrend in the cost of living after he has retired and the amount of his pension has been fixed.

Equity unit plans involve no unforeseeable cost problems to the company, and in general hold the promise of larger pensions with automatic increases through time. However, these plans embroil the pensioner in the unpredictable gyrations of the stock market, and may provide pensions which are falling when the cost of living is rising, and vice versa.

Recommended Plan

The cost-of-living pension plan, in its most fully developed form, alone provides for the pensioner an income based on what directly concerns him, namely changes in the cost of living itself. If properly equipped with safety features which would control a too-sudden change in pensions due to a sudden, sharp inflation, and if established in conjunction with a properly invested pension fund, this type of plan can be established with less real financial risk to the corporation than is inherent in many of the older types of plans currently in force, and with greatly enhanced employee satisfaction.

The basic benefit structure which underlies the cost-of-living plan can be a conventional plan of the so-called career-average earnings type, in which case each unit of pension would be adjusted, both before, as well as after, retirement, on account of changes in the cost of living.

Or, it can be of the so-called final-average earnings type, with the pension adjusted for changes in the cost of living after retirement only.

The use of the cost-of-living index as a definite factor in the plan enables a more modest basic benefit formula to be used, consistently with the provision of greater employee satisfaction and with a better chance of the plan's standing up to the test of time.

Hence, it does not follow that a plan of this type would necessarily be more costly than a conventional plan. It may in fact, be less costly, both at the outset and in the long run, especially if it is linked with a funding and investment policy suited to its needs.

In order to safeguard the fund against the consequences of a possible runaway inflation, limits are placed on the extent to which pensions can grow in any one year.

For example, if the pension is geared to a 24-month moving average, based on the Consumer Price Index, a five per cent limit may be placed on the extent of growth in pensions from one six-monthly point to the next. The amount of maximum permitted growth will be found to contain almost every short-term inflationary situation which has arisen in America during the past 130 years.

The pensioners covered by cost of living plans will certainly have less worries and uncertainties in their financial affairs than either those covered by conventional plans or those covered by equity unit plans.

Many people think a cost of living plan might be dangerous from a company's point of view, because it may be risky. Under the equity type of plan, the employer is in a position of having a pension plan in which the costs may be fixed in terms of a percentage of payroll, that is, the equity unit type, or fixed to the same extent as under a conventional plan.

How much growth in pension goes out to each employee is something which lies beyond the direct field of operations of the employer, since this growth is generated within the pension fund. The employee takes all the risk, suffers all of the fluctuations, and receives all of the benefits from the anticipated capital growth of equity values.

Relieves Employee of Risks

Under the cost-of-living type of plan, the employee is relieved of the risks and fluctuations and can be reasonably assured that his standard of living will be maintained, notwithstanding continued inflation of any but the most violent kind.

The pension fund normally absorbs short-term fluctuations without either employers or the employees being adversely affected. However, the employer, in effect, underwrites the pension fund to the extent that its performance may fail over the long-term, to provide pensions which keep pace, within limits with the cost of living index or a moving average based thereon.

The employer funds his plan and sets the investment policy of the fund with this in mind and can make a reasonable allowance for the effects of continued inflation in his funding basis, consistently with meeting United States Treasury requirements as to even tax-exempt funded plans.

Under the equity unit plan it is the employee who is primarily concerned in the investment policy which governs the operations of the fund. Under the cost-of-living plan, it is the employer who is primarily interested. If the fund out-performs the cost of living index, the provision of additional benefits will impose no strain upon the employer.

There is little question, as between these two types of plans, which does the better job from the viewpoint of the retired employee. The cost-of-living plan alone assures him of a steady retirement income in keeping with his living costs.

The equity unit plan may do better than this, but that is speculative. It is for each corporation to decide whether it is prepared to underwrite the fund to the extent which may be necessary in order to place its employees in the position of having that stable real income after retirement, which is the objective of every pension plan.

Investment Aspects

Whether they realize it or not, most employers are already saddled with the burden of adjusting their pension plans so as to bring their benefits from time to time to currently accepted levels.

In many cases, however, proper consideration has not been given to the investment aspects implied by this need to make periodical revisions and upward adjustments. Companies which fancy themselves to be free of this responsibility to maintain pensions in accordance with living costs and which have failed or simply omitted to bring their funding arrangements into line with that concept are therefore in the worst position of all and are likely in the long run to face higher pension costs than those which have studied this problem and acted accordingly.

In other words, the companies which will pay the most in the long run are not those which have established variable benefit plans, but those which have failed to set up funding arrangements suitable for the provision of these benefits. And if these higher costs are not met, the employees of these companies face serious disillusionment.

It has been said that a cost-of-living pension plan might involve more financial risk than a conventional plan. There have been thousands of final-average earning plans in force for years and, no doubt, there will be many more, and yet it is a fact, I believe, that a career-average earnings plan, with a cost of living adjustment, which may take better care of the pensioner, involves less financial risk to the employer if proper attention is given to the funding and investment aspects.

The appearance of risk and its real existence often turn out to be very different things over the years. Just as the apparent safety of a bond investment may steal quietly away in an inflation, so the apparent finality of the costs of certain kinds of pension plans can turn out to be quite illusory if the basic objectives of a pension plan are to be attained and, in reverse, the amount of employee security provided by these plans can be quite illusory if heavy, retroactive cost increases are not met from time to time in these same plans.

The primary key to the long-term costs of a good pension plan lies in the investment policy associated with it. In any plan where this is properly geared to the concept of a long-term upward trend in living costs or living standards, the provision of benefits which also recognize the trends is not as costly as is generally supposed.

*An address by Mr. Calvert before Meeting of National Industrial Conference Board, New York City.

$30 Million Bonds of Baltimore Gas & Elec. Offered to Investors

Halsey, Stuart & Co. Inc. is manager of an underwriting syndicate which on March 4 offered $30,000,000 Baltimore Gas and Electric Company first refunding mortgage sinking fund bonds, 4% series due March 1, 1993, at 101.134% and accrued interest, to yield 3.94%. Award of the bonds was won by the underwriters at competitive sale March 3 on a bid of 100.3099%.

Net proceeds from the financing will be used by the company to repay temporary bank loans made during the second half of 1957, and for general corporate purposes, including proposed construction expenditures. Increasing demands for electric and gas service require the company to make substantial expansion of its facilities. It is estimated that construction expenditures in 1958 will total around $45,000,000.

The new bonds will be redeemable at regular redemption prices ranging from 106.14% to par, and for the sinking fund at redemption prices receding from 101.134% to par, plus accrued interest in each case.

Baltimore Gas and Electric Co. is engaged primarily in the business of producing, purchasing and selling electricity and gas within the State of Maryland and where all of its properties are located. Other business of the company includes the sale of gas and electric appliances and the production and sale of steam. The area served with electricity contains approximately 2,283 square miles and has an estimated population of about 1,725,000, the area served with gas contains about 342 square miles with an estimated population of about 1,425,000.

For the year 1957, the company had total operating revenues of $141,735,000 and net income of $17,550,000.

Stalker Coast Exch. Member

LOS ANGELES, Calif.—Alfred J. Stalker, general partner of the firm of Kidder, Peabody & Co., has become a member of the Pacific Coast Stock Exchange through the purchase of a membership in the Los Angeles Division it was announced by Frank E. Naley, Exchange Board Chairman.

Kidder, Peabody & Co., a large investment banking firm with headquarters in New York, recently announced the opening of offices in Los Angeles on Jan. 2, 1958, at 210 West Seventh Street which will be the headquarters for the firm's West Coast operations. Offices have also been established in the Russ Building in San Francisco.

Mr. Stalker has been in the securities business in New York since 1929, following graduation from Syracuse University. He was Manager of the dealer relations department of his firm for a number of years prior to becoming a general partner and the firm's representative on the West Coast.

Shelby Cullom Davis Branch

COLUMBUS, Ohio—Shelby Cullum Davis & Co. has opened a branch office at 50 West Gay Street under the management of Charles F. Steinman.

Kingston President of New Orleans Exchange

Walter D. Kingston

NEW ORLEANS, La. — Walter D. Kingston, Sr., bond department manager of E. F. Hutton & Company's New Orleans office, was elected President of the New Orleans Stock Exchange.

Mr. Kingston, formerly a partner of W. D. Kingston & Company, has been active in the investment banking business since 1919.

Other officers elected were Arthur J. Keenan, St. Denis J. Villere & Co., Vice-President, and Erwin R. Schweikhardt, Schweirkhardt & Company, Treasurer.

Morgan Stanley Group Offers Ohio Edison 4¼% 1st Mtge. Bonds

An underwriting group headed by Morgan Stanley & Co. and comprising 29 investment firms placed on the market yesterday (March 5) a new issue of $40,000,000 Ohio Edison Co. first mortgage bonds 4¼% series due 1988. The bonds were priced at 101.706% and accrued interest to yield approximately 4.15% to maturity. The issue was awarded to the Morgan Stanley group at competitive sale yesterday on its bid of 100.856% for the indicated coupon.

The utility company will apply the major part of the proceeds from the sale to its construction program which calls for the spending of an estimated $58,800,000 in 1958, principally for new electric generating and transmission facilities. The company will also purchase an additional $2,100,000 of common stock of its wholly-owned subsidiary, Pennsylvania Power Co., which has a 1958 construction program estimated at $11,900,000.

The new bonds are subject to redemption at 105.96% through Feb. 28, 1959 and thereafter at prices decreasing to the principal amount on and after March 1, 1985. Special redemption prices, under an improvement and sinking fund, range from 101.706% to the principal amount.

As of Dec. 31, 1957, the company had a consolidated funded debt of $205,140,000 which included $27,598,000 debt of Pennsylvania Power Company. The company had outstanding 636,300 shares of $100 par value preferred stock and its subsidiary had outstanding 81,049 preferred shares of similar par value. Also outstanding on that date were 6,386,749 shares of common stock of $12 par value.

Ohio Edison furnishes electric service in 589 communities and in rural areas in Ohio having an estimated population of 1,600,000. Principal cities served include: Akron, Youngstown, Springfield, Lorain, Warren and Mansfield. Pennsylvania Power distributes electric energy in an area in western Pennsylvania having an estimated population of 250,000.

The company reported for the 1957 calendar year consolidated revenues of $135,862,000 and consolidated gross income before income deductions of $30,505,000, compared with $129,304,000 and $29,857,000 in 1956.

Now North American Corp.

DALLAS, Tex.—The firm name of First Guaranty Company, Inc., 308 South Harwood, has been changed to North American Corporation.

SKELLY OIL COMPANY

SKELLY

GENERAL OFFICES • TULSA, OKLAHOMA

Marketing Headquarters • KANSAS CITY, MISSOURI

Division Offices • CHICAGO, ST. PAUL, OMAHA, WICHITA, DENVER and DALLAS

CONDENSED BALANCE SHEETS AS AT DECEMBER 31,

	1957	1956	1955	1954	1953
ASSETS:					
Cash and marketable securities	$ 43,534,849	37,921,603	31,323,139	28,758,172	27,429,314
Notes and accounts receivable, less reserve	23,887,972	23,629,613	23,253,366	18,364,539	17,669,700
Inventories	30,461,932	29,612,557	25,341,329	24,851,189	25,576,422
Other current assets	1,128,815	725,106	562,855	507,227	468,148
Total current assets	$ 99,013,568	91,888,879	80,480,689	72,481,127	71,143,584
Investments and long-term receivables, less reserves	5,948,782	5,558,358	3,950,439	2,416,817	1,331,182
Property, plant, and equipment, less reserves	261,077,606	240,887,684	232,029,953	216,654,592	201,828,604
Deferred charges	1,024,132	749,529	607,978	290,077	224,785
Total assets	$367,064,088	339,084,450	317,069,059	291,842,613	274,528,155
LIABILITIES AND STOCKHOLDERS' EQUITY:					
Notes and accounts payable	$ 23,674,506	21,384,814	20,462,101	19,576,257	16,632,867
Accrued taxes on income	9,675,943	10,774,202	10,094,963	8,481,876	12,015,002
Total current liabilities	$ 33,350,449	32,159,016	30,557,064	28,058,133	28,647,869
Funded debt	5,607,000	6,327,000	8,485,000	8,818,000	10,535,000
Other deferred obligations	50,833	130,700	213,452	102,580	166,304
Reserve for workmen's compensation and public liability risks	368,357	382,945	424,709	536,444	513,576
Unearned income	2,541,958	1,381,640	2,436,101	1,271,987	1,296,943
Common stock	143,652,930	143,652,930	143,652,930	143,652,930	143,652,930
Earnings employed in the business	181,492,561	155,050,219	131,299,803	109,402,539	89,715,533
Total liabilities	$367,064,088	339,084,450	317,069,059	291,842,613	274,528,155

STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31,

	1957	1956	1955	1954	1953
GROSS INCOME:					
Gross operating income	$263,182,084	251,391,986	231,639,059	211,081,894	215,316,524
Dividends, interest and other income	2,024,366	2,199,811	2,723,021	2,049,913	1,706,225
Total	$265,206,450	253,591,797	234,362,080	213,131,807	217,022,749
COSTS AND EXPENSES:					
Costs; operating, selling and general expenses; and taxes other than taxes on income	$176,186,707	164,886,289	151,442,348	140,281,719	140,585,317
Interest on funded debt	123,006	149,128	233,448	283,095	297,796
Exploratory costs and delay rentals	8,835,724	9,640,854	9,491,661	8,040,932	8,144,507
Depletion, depreciation, and surrendered oil & gas leases	33,575,673	33,322,112	30,909,361	28,419,811	26,144,144
Total	$218,721,110	207,998,383	192,076,818	177,025,557	175,171,764
Net income before provision for taxes on income	$ 46,485,340	45,593,414	42,285,262	36,106,250	41,850,985
PROVISION FOR TAXES ON INCOME	9,700,000	11,500,000	10,045,000	6,651,000	10,574,200
NET INCOME	$ 36,785,340	34,093,414	32,240,262	29,455,250	31,276,785
Net income per share of common stock outstanding	$ 6.40	5.93	5.61	5.12	5.44
Shares of common stock outstanding at close of period	5,746,117.2	5,746,117.2	5,746,117.2	5,746,117.2	5,746,117.2
Cash dividends paid	$ 10,342,998	10,342,998	10,342,998	9,768,244	9,336,669

SKELLY CONDENSED FACTS

FINANCIAL	1957	1956
Gross income	$265,206,450	253,591,797
Depletion and depreciation charged against income	$ 31,440,784	30,783,099
Net income (after all charges and taxes)	$ 36,785,340	34,093,414
Per share	$ 6.40	5.93
Capital expenditures for property, plant, and equipment	$ 55,647,441	43,966,022
Working capital (current assets less current liabilities)	$ 65,663,119	59,729,863
Funded debt	$ 5,607,000	6,327,000
Cash dividends paid	$ 10,342,998	10,342,998
Per share	$ 1.80	1.80
Shares of common stock outstanding at year-end	5,746,117.2	5,746,117.2
Net book value per share	$ 56.59	51.98
Number of stockholders	6,087	5,965
Number of employees	4,826	4,750

OPERATING	1957	1956
Net crude oil produced—barrels	25,213,103	26,167,865
Daily average—barrels	69,077	71,497
Net natural and casinghead gas produced—MCF	128,891,879	129,259,584
Daily average—MCF	353,128	353,168
Net wells completed	464	411
Oil	326	247
Gas	52	65
Dry	86	99
Net oil wells owned	4,431	4,172
Net gas wells owned	657	609
Net producing oil and gas acreage	554,514	516,022
Net undeveloped acreage	4,965,434	4,432,295
Crude oil processed in company refineries—barrels	17,895,257	16,930,500
Gas processed in company gasoline plants—MCF	108,020,919	103,531,139
Sales of petroleum products—gallons	1,187,093,468	1,161,951,048

The foregoing financial statements are condensed from the Thirty-Eighth Annual Report to the stockholders, dated March 6, 1958. The report also contains the certificate of Arthur Andersen & Co., independent accountants and auditors, the remarks of the president of the Company and various operating statistics. Copies of the report may be had upon application to The Secretary, Skelly Oil Company, Skelly Building, Tulsa 2, Oklahoma. The statements and condensed facts published above are for general information and are not intended for use in connection with any purchase or sale of, or any offer or solicitation of an offer to purchase or sell, any securities.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The appointment of Thomas A. Sylvester as a trust officer of **Manufacturers Trust Company, New York**, is announced by Horace C. Flanigan, Chairman of the Board.

Mr. Sylvester joined Manufacturers Trust Company in 1950 when it merged with **Brooklyn Trust Company.** He was appointed an Assistant Trust Officer in 1954. At present, he is assigned to the bank's personal trust department, 55 Broad Street.

* * *

John M. Budinger, Vice-President of **Bankers Trust Company, New York** was named a Senior Vice-President of the bank, Feb. 26, it was announced by William H. Moore, Chairman of the Board. Mr. Budinger continues in his capacity as a Director of the company and serves as Chairman of its Advisory Committees.

Mr. Budinger began his banking career, when he joined the **Wilmette (Illinois) State Bank.** He was Cashier of that bank when he resigned in 1928 to become Assistant Cashier of **The Commercial National Bank and Trust Company of New York.** He was elected Assistant Vice-President in 1929; Vice President in 1936; Senior Vice-President in 1944; and on Dec. 1, 1945 he became President. When the Commercial National Bank and Trust Company was merged into Bankers Trust Company, effective May 28, 1951, Mr. Budinger was elected Vice-President and Director of Bankers Trust Company. He was elected Chairman of the Advisory Committee on June 5, 1951.

* * *

Albert R. Young, Section Head of Brokers Loan, retired today after 50 years of service with **The New York Trust Company, N. Y.** At a luncheon given in honor of the occasion, Mr. Adrian M. Massie, Chairman of the Board, and Mr. Hulbert S. Aldrich, President, congratulated Mr. Young and thanked him for his long record of faithful service with the trust company.

Mr. Young recalled starting in 1908 as a page with the **Liberty National Bank** at a starting salary of $4 a week. The Liberty National Bank merged with The New York Trust Company in 1921, and he has been with the latter bank since that date.

* * *

John A. Murphy, Samuel C. Sander and Louis Schiff were elected Vice-Presidents of the **Trade Bank & Trust Co., New York.**

* * *

Robert A. Barnet, Chairman of the **American Irving Savings Bank, N. Y.**, has retired, but will continue as a Trustee and honorary Chairman. Mr. Barnet joined the **Irving Savings Bank** as executive Vice-President and Secretary in 1936. In 1937 he became President and trustee. Upon the merger of the Irving Savings Bank and the **American Savings Bank**, he was elected Chairman and chief executive officer. Henry R. Sutphen Jr., President, will become chief executive officer and John H. Hammett, executive Vice-President, will become chief administrative officer upon Mr. Barnet's retirement.

* * *

John Sadik was elected Comptroller of the **Franklin National Bank of Long Island, Franklin Square, L. I.**

* * *

John J. Irish, Vice-President of **The County Trust Company, White Plains, N. Y.**, marked 25 years of service on March 1. He is associated with the bank's main office.

* * *

By the sale of new stock, the **Peninsula National Bank of Cedarhurst, N. Y.** increased its common capital stock from $945,562.50 to $1,050,625 effective Feb. 21, (number of shares outstanding—84,050 shares, par value $12.50.)

* * *

George C. Ochs, an Organizer and Director of the **Chester Schroon Horicon Bank, Chestertown, N. Y.** died March 2 at the age of 65.

* * *

Russell Blodgett, President of the **First National Bank of Cooperstown, N. Y.** died Feb. 27. Mr. Blodgett, was 56 years of age. He joined the Bank in 1940 and was President since 1950.

* * *

Edmund W. Thomas, President of the **First National Bank of Gettysburg, Pa.**, for the last 30 years, died Feb. 22.

* * *

By the sale of new stock, the common capital stock of the **Purdue National Bank of Lafayette, Ind.**, was increased from $800,000 to $1,000,000, effective Feb. 21, (number of shares outstanding—50,000 shares, par value $20.)

* * *

The Peoples Bank of Grand Haven, Grand Haven, Mich., has changed its title to **The Peoples Bank & Trust Company.**

* * *

"First and American National Bank of Duluth," Minn., changed its title to **"First American National Bank of Duluth,"** effective March 1.

* * *

By a stock dividend, the common capital stock of **The Citizens National Bank of Bowling Green, Ky.**, was increased from $200,000 to $250,000 and from $250,000 to $300,000 by the sale of new stock, effective Feb. 21 (number of shares outstanding — 15,000 shares, par value $20).

* * *

Citizens Bank & Trust Company, Carthage, Tenn., has changed its title to **Citizens Bank.**

* * *

First National Bank and Trust Company in Asheville, Asheville, N. C., with common stock of $585,000; and **Haywood County Bank, Canton, N. C.**, with common stock of $100,000 merged, effective as of Feb. 14. The consolidation was effected under the charter and title of **"First National Bank and Trust Company in Asheville."** At the effective date of consolidation the consolidated bank will have capital stock of $665,000, divided into 66,500 shares of common stock of the par value of $10 each; surplus of $1,535,000; and undivided profits of not less than $15,325.

* * *

The First National Bank at Orlando, Fla., increased the common capital stock from $1,500,000 to $1,700,000 by the sale of new stock effective Feb. 18, (number of shares outstanding—85,000 shares, par value $20.)

* * *

By a stock dividend **The National Bank of Commerce in New Orleans, La.**, increased its common stock from $4,400,000 to $4,840,000 and from $4,840,000 to $5,500,000 by the sale of new stock effective Feb. 17, (number of shares outstanding—550,000 shares par value $10.)

* * *

The Royal Bank of Canada has announced the offer of shares of capital stock at $37.50 in Canadian currency per share, to be issued to shareholders of record March 5th in the proportion of one share for each five shares held.

The new issue is not registered under the U. S. Securities Act of 1933 and amendments thereto, because so doing would entail the supplying of information by the bank which would not be required in Canada. In consequence, shares are not being offered to shareholders whose recorded address is in the United States of America or a territory or possession thereof, but there are being provided for such shareholders subscription rights which though not exercisable are transferable and can be sold.

Subscription warrants will be mailed on or about March 19. June 10, is the date by which the offer is to be accepted. The subscription price is payable in 10 installments of $3.75, at intervals of approximately one month, extending to March 20, 1959.

It is emphasized that while the terms of the offer provide that the price of the new shares is payable in 10 equal installments extending from June 10, 1958 to March 20, 1959, nevertheless subscribers may accelerate their installments by paying the whole amount at the time of subscription or by paying up any balance at any time after having made the original subscription. The purpose of this arrangement is to make it possible for shareholders who have paid up the whole amount of their subscription not later than April 30 to rank for the full dividend payable June 1. Naturally, subscribers who have not paid in full will rank for dividends to the extent that they have made payments on account.

The Bank Act prohibits the offer of, or provision of rights in respect of a fraction of a share, and it is indicated that after the expiry of the offer any unsubscribed shares, or shares representing fractions, will be disposed of by the Directors and the excess over $37.50 a share distributed pro rata to the shareholders affected for the reasons mentioned.

* * *

The formation of a trust company, **The Bank of Nova Scotia Trust Company (Bahamas) Limited**, with its headquarters in Nassau, is announced Feb. 27 by **The Bank of Nova Scotia.** Managing Director of the new organization will be E. Leslie Hammond, formerly senior assistant general manager of **Midland Bank Executor and Trustee Company Limited, of England**, who has close to 35 years' banking and trust experience in the United Kingdom.

The company will provide a full range of trust services for individuals and organizations, as well as offering clients the special tax and financial advantages available in the Bahamas, where there is no income tax, no business tax, and no inheritance tax or death duty on real estate.

Three well-known British institutions are participating with the BNS in founding this new Bahamian trust service. They are Eagle Star Insurance Company Limited, whose world-wide interests include Canada and the Caribbean; Philip Hill, Higginson and Company, the London investment banking house that recently acquired a substantial interest in Harriman, Ripley and Co., Inc. of New York, and Sir Robert McAlpine & Sons, active internationally in the engineering and construction fields.

* * *

Edouard Getaz, has been elected a member of the board of control of **Swiss Bank Corporation, Berne, Switzerland**, it was announced over the week end.

Banking's Role in Puerto Rico's Development

Further evidence of Island's economic progress reflected in scheduled opening this year of another Chase Manhattan branch

SAN JUAN, Puerto Rico—According to present plans, before 1958 is over a new branch of the Chase Manhattan Bank will be opened in modern, air-conditioned quarters in Bayamon, a flourishing suburb of San Juan.

Approval for the branch was received by Chase Manhattan in February and it came at a fitting time, for this year Chase Manhattan will be celebrating its 25th anniversary in the Commonwealth. The bank, opening its first branch in San Juan in 1933, in the ensuing years has become part and parcel of the phenomenal economic and industrial growth of the Island.

In 1951 the bank opened its second branch in Sauturce, and further growth of population and business resulted in the opening of a third branch in 1956 in the university town of Rio Piedras, about ten miles from San Juan. The new Bayamon branch will provide the same range of complete banking services as does its three predecessor branches.

The Chase Manhattan branches function in a dual capacity in Puerto Rico. First they are community banks serving the people and business enterprises of the Island. Added to this is their function as part of the worldwide banking network of branches, representatives and correspondent banks that comprise the Chase Manhattan Bank's international organization.

On the local level the bank's branches provide Puerto Ricans with such consumer services as savings accounts, special and regular checking facilities, Christmas Clubs, personal and automobile loans—in short, a full roster of banking services for the individual that compares favorably with the services available at one of the bank's domestic branches.

Since the inception of "Operation Bootstrap" in 1948, some 500 plants have been established in the Commonwealth, many of these with the help of Chase Manhattan loans. If listed, Chase Manhattan's Puerto Rican corporate customers today would read like a blue-book of commerce and industry.

The bank also makes important agricultural loans that help finance the production of the Commonwealth's three major exports: sugar cane, tobacco and coffee. Other financing from Chase Manhattan plays an important part in the shipment to the mainland of such additional exports as fruits and nuts, textiles and pharmaceuticals.

Since overseas trade is a two-way street, the bank's financing also lends support to Puerto Rican imports. These include purchases of food products, wearing apparel, electrical appliances, motor vehicles and building materials, the vast majority of which come from the States.

Some idea of the volume of Puerto Rico's trade with the mainland may be had from the totals covering the 1956-57 trade year. Shipments to the mainland amounted to $428.2 million, an increase of 10% over the previous year; purchases from the mainland totaled $631.2 million, up 11.1% over the 1955-56 period. Chase Manhattan financing, in direct loans, letters of credit, and other instruments for overseas financing, has filled a key role in this trade growth of the Commonwealth.

The bank also points with pride to the part it plays in the Commonwealth as a corporate citizen and employer. Loans totaling many millions of dollars have helped the development of numerous government housing projects and in the construction of private dwellings under FHA provisions. More than 95% of the 330 people on Chase Manhattan's staff in Puerto Rico are native-born, and the members of the official and clerical staff from the mainland by now have become long-time residents in the Commonwealth.

Some idea of the bank's growth in the Island—a growth that has paralleled the Commonwealth's economic development and indeed has been an integral part of it—may be had from the increase in loans and deposits in the bank's branches in the Island during the past quarter of a century.

As of Dec. 31, 1934, after the first full year of operation, loans were reported totaling $698,000 outstanding, with deposits amounting to $2,816,000. By the end of the next decade (Dec. 31, 1944) loans were $1,076,000 outstanding, and deposits $9,628,000. On Dec. 31, 1954, these totals had burgeoned to $25,642,000 in outstanding loans, and $27,802,000 in deposits. And in recent years these indices of the bank's activity have continued to increase remarkably.

The span of a single decade has doubled the living standard of the Puerto Rican people, which is the second highest in all Latin America. The bank is proud of the part it has had in the Island's extraordinary progress, and confident of Puerto Rico's future.

Howard F. Vultee Joins Eastman Dillon Firm

Howard F. Vultee has joined Eastman Dillon, Union Securities & Co., 15 Broad Street, New York City, as financial and investment advisor, it has been announced.

Howard F. Vultee

Mr. Vultee was formerly administrative vice president of The Marine Midland Trust Company of New York, and vice president and chairman of the administration committee of the parent company, Marine Midland Corporation. He joined the bank in 1946. Prior to that, he was financial secretary of Connecticut Mutual Life Insurance Company of Hartford, Conn.

In addition, from May, 1955 to July, 1956, Mr. Vultee was director of the Office of Economic Affairs, U. S. Mission to NATO and European Regional Organizations, Paris, France. He was appointed to this office with the rank of Minister by President Eisenhower and was confirmed by The United States Senate.

Form Zipperman Co.

Harold Zipperman & Co. has been formed with offices at 515 Courtlandt Avenue, New York City, to engage in a securities business. Partners are Harold Zipperman and Sidney Zipperman.

First California Adds

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — Vernon C. Mingham is now affiliated with First California Company Incorporated, 436 14th Street. He was formerly cashier for Mason Brothers.

So. States Secs. Adds

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga.—A. T. Caldwell, Horace F. DeFore, Bert N. Garstin, Wiley L. Hutto, Alton E. Lutz and Clarence D. Porter have been added to the staff of Southern States Securities Corporation, 652 Peachtree Street, Northeast.

New York Stock Exch. Still Growing

The number of people working in the New York Stock Exchange community increased by 3,100 during 1957 to a total of 64,400, Keith Funston, Exchange President, reported today. This includes members, allied members, registered representatives and other employes of member firms and the Stock Exchange.


G. Keith Funston

This growth, Mr. Funston said, reflected several factors—a growth in the number of branch offices, a small net gain in the number of member firms, larger sales forces and expansion of services offered to the public.

He estimated that all personnel employed in the securities industry increased during 1957 from 110,000 to 112,000. Personnel in the Stock Exchange community comprised about 57 per cent of the overall total. Included in the 1957 total of Exchange employes are some 870 member firm employes in foreign offices.

The third annual personnel survey of the Stock Exchange community, Mr. Funston said, showed that some 500 people were employed by Exchange firms immediately after graduation from college. This compared with 70) in 1956. Total growth of the Exchange community in 1956, he added, was 3,400 people.

Los Angeles Bond Club To Hear Dr. DuBridge

LOS ANGELES, Calif. — The successful launching of the U. S. Explorer satellite will be the subject of an address by Dr. Lee A. DuBridge, President of the California Institute of Technology, at a luncheon meeting of The Bond Club of Los Angeles, Thursday, March 6th, at the Biltmore Hotel.

Dr. DuBridge will discuss the steps that led to the dramatic orbiting of the American satellite only 80 days after issuance of a Department of Defense directive to the Jet Propulsion Laboratory of the California Institute of Technology. A motion picture, 'X Minus 80 Days—The Story of the Explorer', will be presented by Dr. DuBridge, and will show the development, testing and final launching of the American satellite.

Halsey, Stuart Group Offers $10 Million Iowa Public Ser. Bonds

Halsey, Stuart & Co Inc. and associates on March 4 offered $10,000,000 Iowa Public Service Company first mortgage bonds 4¼% series, due March 1, 1988, at 100% and accrued interest. The group won award of the issue at competitive sale March 3 on a bid of 99.0199%.

Net proceeds from the sale of the bonds will be used to pay off temporary bank loans incurred in connection with the company's construction program, and, together with cash derived from operations, to provide a portion of the funds required for additional construction, improvements and extensions to the company's property.

The new bonds will be redeemable at general redemption prices ranging from 105% to par, and at a special redemption price of 100%, plus accrued interest in each case.

Iowa Public Service Company is engaged in the production, transmission, distribution and sale of electricity, serving about 228 communities in portions of the western and north central parts of Iowa, including Waterloo on the east and Sioux City on the west, and about six communities in South Dakota near the Iowa-South Dakota State line. The company purchases natural gas from Northern Natural Gas Company and sells it at retail in 36 communities in Iowa, seven communities in South Dakota and two communities in Nebraska.

For the year 1957, the company had total operating revenues of $33,878,039 and net income of $3,857,124.

Shearson, Hammill Adds

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, Conn.—William J. Hartigan has been added to the staff of Shearson, Hammill & Co., 37 Lewis Street. He was previously with Schirmer, Atherton & Co.

Two With Walston

HARTFORD, Conn.—George A. Naprstek and Willis C. Warner have become associated with Walston & Co., Inc., 111 Pearl Street. Mr. Naprstek was formerly with Schirmer, Atherton & Co. Mr. Warner was with Eddy & Co.

Continued from page 6

The Consequences for Investors Under Puerto Rican Law

porate forms for an investment in Puerto Rico, it is difficult to generalize abstractly. Except in special situations, a Western Hemisphere Corporation will not be an attractive corporate form in which to operate under the Exemption Program. Any saving of Puerto Rican tax under the program is lost since United States tax must nevertheless be paid. Moreover, the Puerto Rican withholding taxes on dividends result in a burden in excess of the 52% rate imposed here; and there is no immunity from the penalty tax on unreasonable accumulation of earnings.

Generally, investors under the Exemption Program have either chosen a domestic corporation qualifying under Section 931 or a Puerto Rican corporation. In the choice between these two forms several factors are involved. A Section 931 corporation has the advantage that it may be liquidated tax free. Thereby, a parent investor can ultimately realize the Puerto Rican profits free of both United States and Puerto Rican tax. On the other hand, a U. S. capital gains tax must be paid on the liquidation of a Puerto Rican corporation unless prior to the transaction a ruling is obtained from the Internal Revenue Service that one of the principal purposes of the liquidation is not the avoidance of United States income taxes. Such rulings are rarely given.

The biggest drawback of a domestic corporation qualifying under Section 931 is that meticulous compliance with the technical requirements imposed by that section is absolutely essential, and it is sometimes difficult, as a practical matter, to achieve such compliance. As I have described, such a corporation must derive 80% or more of its gross income from Puerto Rican sources. If such a corporation manufactures in Puerto Rico for sale in the United States, there is some risk that the corporation might fail to qualify under Section 931. Let me elaborate.

Source of Income

For purposes of determining its geographical source, income derived from the manufacture and sale of goods is divided into manufacturing and selling components. The portion derived from manufacturing in Puerto Rico is clearly from Puerto Rican sources. As to the sales activity, the generally accepted rule is that the geographic source of income is the place where all right, title and interest in the goods passes from the seller to the buyer. This is ordinarily referred to as the title passage rule. Title passes at the time when the risk of loss of the goods shifts from the seller to the buyer. It is a matter of the intention of the parties. This intention is expressed by the terms of the contract of sale. For example, if a corporation manufactures goods in Puerto Rico and sells those goods F. O. B. San Juan, the source of income is generally accepted as Puerto Rico since title to the goods passed in Puerto Rico. In contrast, if the goods were sold F. O. B. New York, title would have passed in the United States and the source of income attributable to the sale—as distinguished from manufacture—would be the United States.

While all of the court cases in which the question has been raised, except one which was later reversed, have held that the geographic place where title passed determined the source of income attributable to the sale, the Treasury has never been wholly satisfied with this rule. It is aware of the fact that because of the broad coverage offered by insurance companies today, the importance of title passage as a business matter is relatively slight; and that the place of title passage can be arranged for purely tax motives without any serious accompanying commercial problem.

In lieu of the title passage rule, the Treasury has at times in the past urged and is now urging in several pending cases that the source of income on a sales transaction should not necessarily turn on the place where title passed and that, in some instances, at least, it should be the place where the substance of the transaction occurred, e. g., the place where the sale was negotiated. Until this issue is definitely decided, the possibility that title passage does not automatically determine the source of income should not be dismissed.

The somewhat uncertain state of the law in this field has several consequences for the potential investor. If sale of the goods produced in Puerto Rico will demand substantial sales activity in the United States, there is a danger that a sufficient part of the income might be deemed to be from United States sources to prevent a domestic corporation from qualifying under Section 931. Were this to happen, the whole purpose of the arrangement would be defeated since *all* of the income of the Sec. 931 company would be subject to mainland tax.

Aside from this danger, the problem of pricing where the subsidiary sells its product to the parent, or an affiliate, is highlighted if a Section 931 corporation is utilized. Such a corporation is domestic and, hence, must file a United States return. The returns of both parent and subsidiary will normally be audited at the same time and the split of total profit between the two companies will therefore be apparent. If the Internal Revenue Service sees that the lion's, not to say hog's share of the overall profit is attributed to the exempt subsidiary and only a small share to the taxable parent, it may conclude that the subsidiary has charged the parent more than a fair price, in which case it may, under Section 482, apportion part of the subsidiary's income to the parent. This would, of course, affect the amount of income which would obtain the benefit of the Puerto Rican exemption, but it would not necessarily disqualify the company from being exempt on the part of the overall income allocated to it.

Another Sec. 931 Difficulty

There is, however, a further difficulty created by this pricing problem. It is not inconceivable in cases where the Sec. 931 company carries on some activity on the mainland, as it usually does, that the Service might take the position that the excessive price charged by the Puerto Rican subsidiary to the United States parent represented in part the price paid for goods and in part the manufacturing company's share of the profits from distribution of the goods in the United States. If this position were to be taken and successfully maintained, the effect could be that the corporation operating in Puerto Rico would no longer qualify under Section 931 because it derived more than 20% of its gross income from United States sources. Consequently, *all* of its income, including the Puerto Rican income would become subject to the United States tax.

Ultimate Investment Form

In contrast to this, a Puerto Rican corporation as a medium for an investment in Puerto Rico offers greater safety and certainty. Even if some of its income is deemed to be derived from United States sources or is apportioned to the United States, the company would still not be subject to United States tax on all of its income. Because it is for tax purposes a foreign corporation, it would at worst be taxed on only that part of its income which could be allocated to the United States. The price of obtaining this greater degree of certainty is, of course, that as a minimum, capital gains tax must be paid in order to bring home the corporation's accumulated exempt profits. This, then, is the ultimate question corporate investors in Puerto Rico have had to weigh to determine the form through which they will operate: the advantage of possible tax-free liquidation of a Section 931 corporation against the risks inherent in the use of this vehicle. The decision must ordinarily be made on the basis of a consideration of the details of the operation of the business which is to be conducted in Puerto Rico. Both vehicles contemplate that there will be no current distribution of earnings.

Individual Investor

The tax consequences of an investment by an *individual* in Puerto Rico under the Industrial Incentive Act of 1954 depend upon whether the investor will reside in Puerto Rico or the United States. In an individual residing in the United States owns stock in a Puerto Rican corporation, he is taxed by the United States when he receives a dividend from the corporation or disposes of his stock. Any Puerto Rican tax withheld from dividends may be credited against the United States tax imposed on that dividend.

The pattern is substantially changed when an individual investor intends to *reside* in Puerto Rico. Under Section 933 of the 1954 Code, an individual who is a bona fide resident of Puerto Rico is exempt from United States tax on all income received by him from Puerto Rican sources. (He remains, however, subject to United States tax on income received by him from United States or foreign sources.) An individual is a bona fide resident of Puerto Rico within the meaning of the Code when he makes Puerto Rico the center of his social and business activities. Because of this United States exemption an individual who establishes a business in Puerto Rico which qualifies under the Industrial Incentive Act of 1954 and who becomes a bona fide resident of Puerto Rico, is not subject to United States tax on the income from his Puerto Rican venture. On the Puerto Rican side, an individual who receives the income of or dividends from an exempt business in Puerto Rico, does not have to pay Puerto Rican taxes on that income. If the business is conducted as a corporation instead of as a sole proprietorship, the corporation and its dividends are exempt, but any salary paid the investor would be subject to Puerto Rican tax. As a sole proprietorship *all* income earned by the business may be realized by the investor free of United States and Puerto Rican tax.

In conclusion, I would like to emphasize that the Puerto Rican Exemption Program is not a gimmick. It is soundly based on the economic needs of Puerto Rico and the recognition of these needs by the mainland government. With proper tax planning it offers unique opportunities to investors.

Two With Jamieson

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Harry K. Edwards and Louis Gluckman have become connected with H. L. Jamieson Co., Inc., Russ Bldg.

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A Misuse of Taxation to Stifle Banking Competition

reserves and surplus are in excess of 5% of deposits or share accounts, instead of 12% as at present.

When mutual thrift institutions were first made subject to the Federal income tax in 1951, Congress recognized that the **safety** of these institutions **should be the first consideration.** Hence, it was provided that earnings not paid out should be added to reserves and surplus accumulated by these institutions to absorb possible future losses. Only when this safety margin exceeds 12% of current deposits of savings banks, or of share capital of savings and loan associations, are retained earnings taxed. The 12% ratio is modest for institutions that hold large portfolios of mortgage loans and that receive a steady flow of new savings.

The Curtis bill would replace the 12% with 5% and so make it impossible for mutual savings institutions to accumulate adequate additional reserves and surplus to keep pace with the growth of their deposit and share liabilities in the future.

Let us take the case of a mutual savings bank currently earning $3\frac{3}{4}\%$ on its deposits, after expenses, and having a reserve and surplus ratio of 10% of deposits. This bank can pay $3\frac{1}{4}\%$ to depositors and add $\frac{1}{2}$ of 1% to its reserves and surplus. This would margin an annual deposit growth of 5% without reducing the ratio of reserves and surplus to deposits. Under the Curtis bill, this savings bank would have to pay a 52% income tax on annual earnings in excess of 3% of deposits, leaving earnings after taxes of 3.36% of deposits. Were this savings bank to continue to pay $3\frac{1}{4}\%$ to depositors, the balance available for additions to reserves and surplus would be only about one-tenth of one per cent, enough to margin deposit growth of only 1% per annum. Since this savings bank would have a much greater deposit growth annually merely by crediting 3% to its depositors, the rate paid would have to be reduced. Steps to discourage the growth of deposits would also have to be taken to avoid too rapid a decline in the surplus to deposit ratio.

Spurious Tax Equality

The commercial bank advocates of the Curtis bill base their endorsement of this unwholesome measure on the alleged principle of equality. They claim it would place taxation of stock and mutual institutions on a comparable basis.

This equality argument is intentionally fallacious reasoning.

Interest paid depositors by commercial banks is deductible in full from their taxable income. Income of regulated investment companies and capital gains paid out in accordance with applicable provisions of the Internal Revenue code are not taxed at all to these companies because the shareholders pay personal income tax on such receipts. But the Curtis bill would make dividends paid depositors in mutual savings banks and share holders in savings and loan associations, payments exactly comparable with interest paid on time deposits by commercial banks, deductible only up to 3%. Any return paid depositors or shareholders in mutual savings institutions above 3% would be taxed to these institutions and also to the depositors and shareholders. This would be blatantly unequal, discriminatory taxation of mutual thrift institutions. To advocate such legislation on the ground of tax equality is worthy of Alice in Wonderland.

Taxation of all retained earnings of mutual thrift institutions when reserves and surplus exceed 5%, rather than 12%, is similarly proposed for the alleged purpose of equalizing taxation of stock and mutual institutions.

But commercial banks, like mutual savings banks and savings and loan associations, are accorded special tax treatment to safeguard their financial strength. One of the cornerstones of a sound national economy is a strong banking and thrift institutional structure. As an aid to preserving a sound banking system, the Bureau of Internal Revenue a decade ago authorized commercial banks to charge against taxable income sums credited to a reserve for loan losses equal to three times the average loss on loans during the worst 20 years of the bank's experience. If a reserve of this size is not adequate for the purpose, and many commercial banks have argued heatedly that it is not—and I agree—, the amount should be liberalized by regulation or legislation.

Moreover, commercial banks, while making unfounded charges that mutual savings institutions enjoy an unduly favored position under our tax laws, are themselves a major beneficiary of special favor in the taxation of capital gains and losses. The Revenue Act provides that banks may deduct in full from taxable income net realized losses on investments without limit as to amount, a privilege not accorded other classes of corporate and individual taxpayers. Net long-term capital gains, on the other hand, as with other taxpayers, are taxed at only 25%. By deducting net realized losses on investments from ordinary income, while paying a tax of only 25% on net realized long-term gains, the commercial banks have reduced their taxes by hundreds of millions of dollars over a period of years.

Thanks to tax-free additions to loss reserves and the deduction of realized net losses on investment in full from taxable income, commercial banks have paid much less than the 52% rate of income tax applicable to corporate taxpayers generally, even though they are stock enterprises conducted for the profit of their shareholders.

Let me hasten to add that these extraordinary benefits accorded commercial banks under our tax laws are entirely justified. They are, in fact, a small price to pay for maintaining a strong banking system and saving the country from the scourge of commercial bank failures which proved so disastrous in the early 1930's. It is far more important to have a strong banking system than to collect a few hundred millions of dollars of added income taxes.

Yet it ill befits commercial bankers, as beneficiaries of these special tax favors, to agitate for unfair and unsound taxes to undermine the strength of mutual savings institutions on the specious ground of "tax equality."

Special vs. The Public Interest

I have sought to analyze the Curtis bill objectively and dispassionately from the viewpoint of the public interest.

Let me add a personal note of disappointment and frustration over commercial bank endorsement of this bill.

In a dynamic economy, changes are required from time to time in banking laws and regulations. Leaders in commercial and savings banking in the empire state

conferred recently to seek a common program of legislation that would strengthen the ability of all our banking institutions to serve the public adequately and efficiently.

The breakdown of these promising discussions coincided with formal approval of th Curtis bill by the New York State Bankers Association, coupled with its request that the bill be made even more effective as a means to stifle competition between mutual and stock institutions and to reduce the return paid to savers.

The State Bankers Association thus allowed itself to go on record as favoring a bill which, to advance the narrow self interests of commercial bank stockholders, would be highly inimical to the public interest and the future welfare of our whole economy.

I cannot believe that the majority of professional commercial bankers in the state are aware that, by this action they have been ranged behind the highly vocal extremist fringe who have openly dedicated their energies and their talents to the extinction of mutual savings institutions because they stand in the way of local commercial bank monopolies.

An Unsound Proposal

The Curtis bill is not a tax measure designed in good faith to raise additional revenue for our Government.

Its primary objective is to prevent mutual thrift institutions from paying higher rates of return on savings than do commercial banks. This is to be done by double taxation of returns paid on savings by these institutions above rates which commercial banks can afford to pay. This is being proposed for the selfish benefit of the stockholders of commercial banks, with contemptuous disregard of the interests of over 25,000,000 Americans who save in mutual thrift institutions and of the welfare of the economy as a whole.

Its second objective is to weaken mutual thrift institutions by preventing them from building up the reserves and surplus reqquired to margin future growth. This is to be done by taxing all additions to reserves and surplus whenever the latter exceed 5% of deposit liabilities or share capital. Such a low ratio is obviously inadequate for growing institutions that seek to serve the needs of the economy through investing savings in mortgage loans and other long-term securities involving some measure of risk.

I cannot conceive that our Congress will give serious consideration to so spurious and unsound a proposal.

Grandpa Scattergood

Harold Scattergood, Boenning & Co., Philadelphia, has joined the ranks of grandfathers. A son

H. F. Scattergood

was born to his daughter, Mrs. Daniel P. McDevitt, Feb. 24 at the Fitzgerald Mercy Hospital in Philadelphia.

With Chas. Thenebe

(Special to The Financial Chronicle)

HARTFORD, Conn.—Henry E. Schmaltz has become connected with Charles E. Thenebe & Associates, 36 Pearl Street.

N. J. Mtg. Bankers Install Officers

NEWARK, N. J.—On Tuesday evening, March 4, 1958, the Mortgage Bankers Association of New Jersey held its 19th Annual Meeting at the Robert Treat Hotel, at which time Frederick C. Stobacus was installed as President, together with the following official family. Mr. Stobacus is Vice President of National Mortgage Co. of Clinton Ave., Newark, N. J. Raymond A. Mulhern is First Vice President, he is Vice President of Underwood Mortgage & Title Co. of Irvington, New Jersey, Charles J. Horn, Second Vice President, (he is Vice President of the National State Bank of Newark); Robert E. Scott, President of the R. E. Scott Mortgage Company of Elizabeth, New Jersey, Treasurer.

At the same time, the following were installed as members of the Board of Governors: for three year term expiring 1961, Robert G. Guempel, Ernest R. Hansen, Max Neuberger and Arthur G. Pulis, Jr., and to fill the unexpired term of Robert E. Scott, who assumes the office of Treasurer, Paul J. Dutko, term expiring 1959.

The Executive Secretary for the Mortgage Bankers Association of New Jersey is Robert J. Sinnenberg, who was installed on January 1 of this year. He is with the Mutual Benefit Life Insurance Co. of Newark, and succeeds Charles J. Horn, who held the post of Executive Secretary for the past 5 years.

The recipients of the scholarship this year from Rutgers is George M. Shackleton, a Junior, who resides in Newark. The award will be accepted for Mr. Shackleton by Dean George R. Esterly of Rutgers. Dr. Pearson of Upsala College will accept the award of scholarship for that University, to the recipient of the award, William Feldmann, also a Junior, whose home is located in Durham, Connecticut.

Rutner With Staats

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—John G. Rutner has become associated with William R. Staats & Co., 640 South Spring Street, members of the New York and Pacific Coast Stock Exchange. He was formerly Assistant Sales Manager with Morgan & Co.

With First California

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—John R. T. Montin has become affiliated with First California Company, Inc., 300 Montgomery Street. He was formerly Walnut Creed Manager for H. L. Jamieson Co., Inc.

Joins Mountain States

(Special to The Financial Chronicle)

DENVER, Colo. — Samuel M. Cavnar has joined the staff of Mountain States Securities Corporation, Denver Club Building.

With Coburn, Middlebrook

(Special to The Financial Chronicle)

HARTFORD, Conn.—Ralph P. Gentile is now with Coburn & Middlebrook, Inc., 77 Whitney Avenue.

Continued from first page

As We See It

thorities have from time to time concluded were the major causes in these ups and downs in business. It would be a still greater task to undertake to appraise the validity of these conclusions.

Who Did Not Kill Cock Robin

It is, however, much easier to list some of the things which did not cause our present troubles and to defend these conclusions with facts. One of these things which did not produce our present problems is definitely the proportion of current production which flowed to labor or the proportion which corporations retained as profit. That much is plain as a pikestaff from the data now available in the current issue of the "Survey of Current Business." The current business downturn started sometime after the middle of last year and became rather pronounced in the final quarter of 1957. If as labor leaders and their political friends assert, the trouble, or one of the chief troubles, was a decline or a disproportionately small share of labor in current production, then one would expect to find the volume of wages and salaries paid out during the first two or three quarters of 1957 to be a good deal smaller than is usual—and to be showing a declining trend.

Is anything of the sort to be found in these Department of Commerce figures? Let us turn to the record. There we find, first of all, that wages and salaries (including the various "supplements") were higher in 1957 than they had ever been in the history of the country. What is more we find that when adjustments are made for seasonal variations, each of the first three quarters of last year showed higher wage and salary payments than the one immediately preceding it. Nor is that the whole story. These payments in 1957 constituted a larger proportion of total national income than at any other time in our history—with the lone exception of a year or two of the great depression when business was earning less than nothing. What is more in each of the four quarters of last year a larger proportion of current national income went to the compensation of employees than in 1955 or 1956.

Nor is this all. Business employed more men in 1957 than it ever did in any other year of its history, paid out more in wages and salaries, and its payments came to more per full-time employee (or the equivalent thereof) than at any other time in history. What is more, every single one of the major industries listed separately by the Department of Commerce paid out more wages and salaries last year, and paid higher rates than in either 1955 or 1956. Whatever went wrong and started the rate of activity in business to turn downward after the middle of last year, it certainly could not have been any underpayment of labor or any parsimony in giving labor its full share—and more—of what was being produced.

And now what of those corporate profits which Mr. Reuther and the others are so disturbed about? They have, of course, been substantial in recent years, but they were lower, not higher, in 1957 than in 1956 and there was a definite downward trend during the year. At no time in the year, or in the year before for that matter, were corporate profits a larger proportion of total national income than must be regarded as perfectly normal in light of the records of the past. Moreover, corporate profits were less than $40 billion in 1957 against a national income of $358 billion and a wage and salary bill of nearly $254 billion. Obviously, it would take a very substantial percentage of corporate profits to add very materially to the purchasing power of labor.

As a matter of fact, there is no indication in the figures of a decline during the first three quarters of last year either in the ability of the rank and file to buy what they wanted or in their actual purchases. Personal income rose quarter by quarter through the end of September. So did the income left individuals after paying their personal taxes. So, too, did their purchases of consumer goods and services. In fact there was hardly more than nominal decline in any of these items even in the last quarter of the year. When buying for business inventory (or reduction in inventories held) is eliminated, purchases of the entire economy rose quarter by quarter through the first three quarters, and declined but little in the last quarter. The total output of goods and services declined during the last quarter almost solely because private investment declined, and that decline was almost exclusively a matter of inventory reduction. National income was down in the last quarter chiefly because corporate profits declined sharply.

Why, then, should anyone suppose that the current recession could be cured by taking a substantial part of these already reduced profits and handing them over to wage earners? Would such a course tend to encourage a higher rate of investment by business? To ask such a question is to answer it. The trouble, or one of the greatest of them, has been that higher labor costs have pushed prices up to levels not wholesome for industry, and the outlook is for continuous demands for still higher wages.

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Puerto Rico's Raw Materials

hold a series of field days to instruct farmers in logging techniques.

Expanding Industrial Integration

We are hopeful that this sawmill will make economical the harvesting of some of the scarcer trees to be used in new and established wood-working industries.

Where does all this leave us? It seems evident that even the optimum utilization of all our natural resources would leave us way short of achieving our major economic objectives. Had we chosen to rely only upon our own physical resources, we should never have achieved the level we have reached today. My last look at the count of Fomento promoted plants showed about 500, and by far the great majority of these use little or no local raw materials. It is true that as Puerto Rico rushes forward in its economic development, more and more materials, intermediates, and services become locally available. A good example is the petroleum refineries. In the process of refining oil, the raw materials are provided for the establishment of a great petrochemical complex. Union Carbide is constructing a very large petrochemical plant to utilize the tail gases from the Commonwealth Refinery. The increasing consumption of metal has made possible the building of an electric furnace which uses locally generated iron and steel scrap. It makes reinforcing bars for use in local construction. These are instances of integration in a growing industrial economy. We have learned that more and expanding industrial plants automatically generate additional supplies and markets.

Yet these new plants usually require a flow of many materials which are not found in Puerto Rico. Let's take stock for a moment. Isn't this just the same for most plants in any state of the Union? There is scarcely a modern plant which could be supported solely by the raw materials, semifinished products and components found in its own vicinity. The material flows in not only from every part of the U. S. but frequently from all over the world.

The Essential Question

This, then, is the answer. Doing business in Puerto Rico presents the same questions you ask yourself about doing business on the Continent. The essential question is: what will be my materials cost laid down in my plant? The answer assumes relevance only when compared to what it costs you in other locations. But again, this is only one cost among many—what do these other factors cost: labor, transportation of the finished product, buildings, power, land, water, and so on? In addition to costs, you want to know whether the kind of labor you need is available, whether you can find an appropriate site with the needed utilities, whether schools and churches are adequate, whether fire and police services are good, in short, the thousand and one answers required for an intelligent locational decision. And when you have all your information, you determine whether this is the place in which you will realize the highest return on your investment, and how much of your profits you will hold on to. Just as you do anyplace else; with this difference—Fomento will help you in getting this information and offers various kinds of assistance.

I myself learned the hard way. I was asked to participate in Fomento's feasibility studies. We are pretty impatient down in Puerto Rico and we got tired of waiting for prospects to come to us with their own projects when they got good and ready. So we decided we would develop feasible projects ourselves. Armed with a study, for example, which shows that the manufacture of glass fibers would be more profitable in Puerto Rico than here on the Continent, we send our industrial representatives out to sell the idea to clients.

The Case of the Flour Mill

Originally, we started to work on projects designed to utilize our own natural resources. Soon we found this too limiting. Thereupon, we started to examine the local market for additional opportunities, particularly those of an integrational nature. How this expanded our scope is best illustrated by the story of the flour mill. Puerto Rico imports about 55,000 tons of flour each year, packed in 100 or 200 pound sacks. For years, people have speculated that it ought to make good sense to erect a flour mill but either the time was not ripe or various technical objections were raised. A major drawback was that ample milling facilities existed in the U. S. and no large firm was interested in expanding milling facilities. Finally, Fomento decided to give this priority and made this the subject for a feasibility study. We succeeded in promoting a $5 million dollar project which is under construction now, and this is how we showed it could make money. We discovered that the growth which had taken place in Puerto Rico together with new projects being explored made a flour mill extremely attractive. The essence of the plan is to bring in shiploads of grain unloaded in bulk into great silos. The amount of animal feed imported had been rising steadily so that it was easy to identify a large, potential local market. This meant that the flour mill, by creating facilities for making animal feed, could profitably dispose of the wheat bran and shorts generated in the milling process. A soybean extraction plant was under construction and a major problem was how to dispose of the soybean meal. Since this is a major ingredient for animal feed, the two projects are complementary with each other and with the tuna cannery. The cannery will buy soybean oil and supply the feed mill with fish scraps, an important protein ingredient. Other ingredients for feed are available locally, such as molasses, and requirements for minerals like phosphate and calcium carbonate will create local projects to mine and process them.

This is only part of the story. The availability of lower cost feed will give tremendous impetus to the raising of livestock, milk and milk products, poultry, and eggs. Puerto Rico now imports about $60 million yearly of these products so that the market is there to shoot at. This means that pasture land can be developed for cattle and poor land devoted to poultry and eggs. A modern slaughterhouse and packing plant has just been promoted which will further encourage the growing of meat and use large quantities of feed for fattening. In turn, it will supply animal scraps for animal feed. The flour and feed mill, in its processing of corn, will supply brewer's grits to our breweries and use spent brewer's grain in the feed. There are other ramifications but enough has been said to make clear how integration works in a mushrooming economy.

Going The Full Circle

Another huge project based on the local market is an ammonia and sulfuric acid plant which manufactures fertilizer for local consumption. But we got impatient again because you can't stay still in this business. Why limit ourselves to purely local arrangements when Continental firms frequently imported all their materials, shipped their entire output, and provided jobs and income just as any of our projects did. Then we learned that you could produce things like synthetic fibers or rubber tires cheaper in Puerto Rico even if you imported all your materials and shipped out all of your product. Also, we learned to watch closely the needs and supplies generated by our growing family of plants, so that we promoted metal plating plants, a tool and die shop, a plant to dye yarns, and perhaps before too long a foundry for small iron castings—these integrational opportunities I mentioned earlier. We had come the full circle—we started by drawing on our limited raw materials and we have wound up by drawing on the one resource without limit—the human imagination.

Our services are available to any prospect who wants to determine whether his project is feasible for Puerto Rico. The procedure is simple—check with our Continental offices and they will start the ball rolling.

Meet Mr. Smith . . .

Winthrop H. Smith

What? Merrill Lynch can't find
a rhyme
For Mr. Smith? Now is the
time —
Invest your surplus funds
forthwith
At Merrill Lynch, Pierce,
Fenner & Smith.

Geisel Coast Exch. Member

LOS ANGELES, Calif.—Membership of C. W. Geisel, to represent the firm of C. W. Geisel & Co. in the Pacific Coast Stock Exchange through the purchase of a membership in the Los Angeles Division, has become effective, it was announced by Frank E. Naley, Exchange Board Chairman.

Mr. Geisel has been in the securities business in the Los Angeles area since 1924 and has previously been a member of the Exchange representing Akin-Lambert & Co.

He is the principal partner in the recently organized firm of C. W. Geisel & Co., and will operate a specialist odd-lot post on the Exchange.

With M. J. Ross

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Lawrence G. Rubin is with M. J. Ross & Co., Inc., 6505 Wilshire Boulevard.

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Some Observations on Business Slumps and Recessions

drugs is the elimination of waste and the reduction of non-essential Federal spending until we have a balanced budget.

President Eisenhower prescribed this remedy in his address in Oklahoma last November when he declared that the increased expenditures for defense would have to come out of non-defense programs, saying:

"Savings of the kind we need can come about only through cutting out or deferring entire categories of activities. This will be one of the hardest and most distasteful tasks that the coming session of Congress must face, and pressure groups will wail in anguish."

The President added to this prescription a further proposal in his State of the Union message where he included also:

"Reducing expenditures on less essential military programs and installations."

Sacrificial Ability

But let me stress at once that there is no expenditure, no tax burden, no austerity that we cannot endure in order to protect the United States from the greatest enemy of mankind in all human history.

I can expand the President's point as to anguish. These pressure groups include every segment of the government bureaucracy. Their very nature is to avoid anguish. And they are supported by more than 1,200 citizens' pressure groups quartered in Washington wishing to safeguard the Senators and Congressmen from anguish.

But to speed up recovery, we need go much further than this—and that is the job of the Congress where great economic statesmanship will be needed.

We should cut government expenditures not only to provide for additional weapons and balance the budget, but also to the point where we can have a tax reduction. This would be the greatest possible stimulant to recovery. However, there is an opiate drug being proposed that should be resisted with horror. That is to reduce taxes without corresponding reduction of government expenditures or a balanced budget. That opiate will poison you with more inflation. No doubt the voices of the pressure groups will rise in even greater anguish over any such cut in government expenditures.

And may I add that when we have the joyride of a boom, we must just stand up and work out our readjustments. In the meantime we must see that no one in the country goes hungry or cold. Readjustment from economic sins is a tough operation.

Those who do not know how these cuts in expenditures can be done without injury to any essential service, can find the answer in plain language in the Reports of the Commission on Organization of the Government. These reports can be had from the Public Printer for a few cents each. Most of you in this audience do not need to be bored by quotations by me from them. You helped to make them. And they still stand. And many of them with great savings await action by the Congress.

Tonight you have heard from two of our great national leaders, Senator McClellan and former Postmaster General James Farley, who were members of the Commission. There are here other members of the Commission and the leaders and members of the Task Forces whose experience and devotion made those reports possible.

You have in the last few days received a great compliment from Mr. Meyer Kestnbaum, President Eisenhower's able assistant whose purpose is to secure the adoption of the administrative part of these recommendations. He says:

"The benefits which will flow from the work of the Commission cannot be measured adequately in terms of dollar savings. . . . important recommendations are addressed . . . to more effective performances of the process of government. This is an area where the Commission has made an enduring contribution."

In addition to our economic problems, the nation is faced with another and parallel crisis. Man's curiosity to explore the unknown and his impulses under freedom to do it, have led him further and further into the discovery of the fundamental laws of nature. Today the scientists with the aid of the engineers have introduced new and gigantic forces into our civilization. But as yet the ethical standards of mankind and its governmental methods have been unable to control these forces.

And in closing may I say that the American people have often in the past dealt with many recessions and with great crises from development of scientific discoveries and their new inventions. We have come out bigger and stronger than ever before. And we will again.

Two With Hincks Bros.

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, Conn.—Richard M. Anderson and Merwin Bernstein have become affiliated with Hincks Bros. & Co. Inc., 872 Main Street, members of the Midwest Stock Exchange.

Hunt With Walker

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, Conn. — Frank C. Hunt has become associated with G. H. Walker & Co., 118 Bank Street. Mr. Hunt was formerly an officer of Gaynor, Clemence & Co., Inc.

Joins Cooley Staff

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, Conn. — Henry Knapp is now affiliated with Cooley & Company, 100 Pearl Street, members of the New York Stock Exchange.

With Baron, Black

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — Joseph F. Black is now with Baron, Black, Kolb & Lawrence, Incorporated, 253 North Canon Drive.

R. L. Colburn Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Samuel Apple has been added to the staff of R. L. Colburn Co., 215 West Seventh Street.

Continued from first page

"Why Puerto Rico"

know whether the National City Bank's face was red. But ours was —with a flush of pride.

In Spanish, we call our Economic Development Administration **Fomento.** It means "to develop, to foment, to stir up." Believe me, a lot of stirring up has taken place in the last few years, as the rapid obsolescence of this ad shows.

What factors caused a people to devise a program which would put them on the way to eventual economic salvation, a program which would gain recognition in almost every underdeveloped country of the free world?

A Peaceful Revolution

In 1940 Puerto Rico looked pretty much like a hopeless case of insufficient resources trying to sustain a large and ever increasing population. In an island only 35 by 100 miles nearly two million people were trying to eke out a living from a million rather tired and generally ravaged acres of arable land. Population, despite a high mortality, was going up at the rate of 60,000 per year. Minerals had not been found in commercial quantities and our few good forests had been cut down mostly for cooking fuel. Our economy revolved around sugar cane like children around a maypole, with coffee and tobacco lagging behind and hardly able to sustain a rural population.

Manufacturing industry such as we had, consisted of a few rum distilleries, some hand needlework shops employing mostly home-workers at wages which fluctuated between 1½ and four cents an hour, and two or three modern plants.

Our net income in 1940 was $225,000,000 and income per capita $121. Why Communism never got a foothold in such soft and soggy soil is something to wonder about. Perhaps—I might even say **probably**—it would have. But we had another kind of revolution instead —a peaceful revolution, a democratic revolution, a modern industrial revolution. For this we must thank an electorate which voted in a new political force that year and has returned it to office ever since by substantial majorities.

If future history remembers that era in Puerto Rican events in the 1940's it will be mainly because of the hope it engendered in thousands of hopeless hearts during its first years of tenure. And that hope was born of faith, reciprocal faith of a people in a man, and of a man in a people. The man is our Governor, Luis Munoz Marin. But I must watch my words lest a score of years of association with him be taken to have warped my objectivity.

Fomento was born in 1942. I had the rare privilege of midwifing the creature and through proximity to the crib was made nurse for the bawling infant. The child has survived our care, and it certainly has grown!

Three-Fold Program

Between the delays imposed by World War II and a stab at government-owned development, industrialization crawled before it was able to walk and finally sprint. Our first five years gave us much experience but very little else in the way of factories and employment. The period, however, was not entirely wasted. First, by planning, building and operating several large scale, heavy industries (by Puerto Rican standards) we were able to prove to ourselves that we could manufacture other things besides sugar and needlework. Second, we learned the lesson of the "multiplier effect."

Rather than commit all our funds to direct industrial investments where they would be frozen until a plant had a number of years of profitable experience, we decided to use our limited government capital as a catalyst. A little later I will tell you what results we got from this new approach. Thirdly, and perhaps most important, we learned the value of the prudent utilization of the taxing power as a means of creating the necessary incentives to bring out the most creative forces of private initiative.

Our tax exemption act and the subsequent refinements thereof I would call the keystone of our economic development program. Just as the power to tax is the power to destroy, the power **not** to tax—when properly directed and under strictly enforced rules —can become the power to create. Some scholar will, I hope, some day study the phenomenon of rapid economic growth based substantially on the willingness of the State to forego taxes in order to achieve a higher standard of living for its people. Any case study of this nature will undoubtedly include Puerto Rico.

Advantageous U.S.A. Relationship

If industrial tax exemption is the keystone of our program, its buttresses are the fiscal and economic relations between Puerto Rico and the United States. As a Free Associated State or Commonwealth, Puerto Rico has no vote in the Federal Government and the U. S. citizens of Puerto Rico and its corporations and partnerships pay no Federal tax on income and profits earned in Puerto Rico. Our tax status is based on that honored tradition which sparked the American Revolution —"no taxation without representation." This, plus the free movement of goods between the continental United States and Puerto Rico sets the framework for an advantageous relationship. It is an advantageous relationship to both parties, the big one and the little one. We could never have achieved as much as we have without it and we are grateful, as we have proved by our loyalty and sacrifices and the blood of our sons in two wars. On the other hand, it is no free ride to luxuryland. What Puerto Rico has done, it did largely on its own initiative and with its own toil, and though we have come a long way, we still have only half the net income per capita of the poorest state of the Union—Mississippi.

If we were outside American tariff walls, perhaps the market for our factories would be limited to the two and a quarter million people of Puerto Rico, but as it is, our maket reaches from the East Coast of Puerto Rico to the West Coast of the United States. Most of the 500 factories we have now manufacture preponderantly for the U. S. market, and many of them are locating with an eye to the developing Latin American market as well.

But let me return for a moment to the beginnings of our progarm so you may understand what has brought this rising tide of industry to our tropic island.

Post-1947 Record of Achievement

By 1947 the die was cast. We had obtained legislative approval for our new industrial tax incentive act and we simultaneously began to negotiate for the sale of those plants which we had built during our first trial period. By 1948 a much improved tax exemption act had been enacted and by 1950 all our factories had been sold to private interests. The industrial climate had been much improved and we began to create a sales organization to make it known in the United States and in Puerto Rico.

Results speak more eloquently than words of the wisdom of the change in policy in our program. During the years 1942 to 1947, 19 factories were started under the aegis of our first program. The results of the next five years commenced to make evident the sagacity of our choice—196 factories started up during this second five-year period and employment jumped from 1,800 for the first five year period to 14,800 for the second. Quite an improvement but the best was yet to be. As we gained in experience, private initiative began to feel more confident about our basic assumptions, about our sincerity and our willingness to give financial aid and other assistance without onerous ties or conditions. During the last five years 423 factories opened and employment increased to 36,000.

Ten-Fold Increase

Translated into terms of investment dollars, while in 1947 Government had invested $11,000,000 in industrial plants and equipment, private interests had put up only $2,000,000. Ten years later the multiplier effect of the new policy becomes evident. While Government investment went up to $40,000,000, the private sector had invested $275,000,000. In other words, 10 years of Operation Bootstrap, using the incentive and promotional approach instead of depending mainly on direct Government investment, multiplied private investment about 140-fold, with only a four-fold increase in Government investment. I hope this lesson will not be lost upon those emergent nations and underdeveloped countries now seeking to better the standards of living of their peoples.

If there has been anything dogmatic in our approach to our economic problems, it has been our determination to be non-doctrinaire, to roll with the punches, and, in punching back against poverty, to use whichever fist is more effective without worrying about whether it's right or left.

Our beginnings, with government owned factories, were unquestionably socialistic, but we had no other choice since private initiative needed to be shown that industry in our land was feasible in the first place. Even so respected a non-socialist as the late Robert A. Taft endorsed our efforts in those days with the observation that it was the only course left open to us.

But government capital and government know-how were too limited to do a job that could begin to meet the needs of the people. It also became evident that the existence of government-owned plants made the promotion of even non-competitive private ventures much more difficult. Ten years ago government industrial development companies were not recognized as having the public utility status they are now beginning to enjoy.

These were other drawbacks to government operation of the factories. Price setting and wage negotiations were understandably complicated. A government owned factory did not have the freedom of the market place. At the same time it had to deal with strongly organized employees as an employer in competitive fields. We also lacked experienced management.

Enlightened Capitalism

The situation called for a change. So we changed. Our program today of inducing investors from outside and inside our Commonwealth to put our people to work on a basis of profit for the investor and improved living standards for the employees is about as firm an example of enlightened capitalism as you can find.

In any underdeveloped country, as in many already developed nobody but government can supply adequate public services— water supply, roads, schools, hospitals, adequate ports and airports, and, in some cases where private interests are unable or unwilling to do so, railroads and electric power.

In the case of Puerto Rico I must say that unless we had had an excellently managed and well financed public corporation to provide for our ever expanding electric power needs, I am very doubtful whether we would have reached our present stage of economic development. Barring accidents, their provision of adequate power has been always two steps ahead of our needs, and as a responsible public body it has been willing to carry redundant capacity as a kind of insurance policy for the economic development program.

As a result of the developments of the past fifteen years, we now have, in round numbers, some 500 new factories operating in Puerto Rico allowing for the rate of attrition which is lower in Puerto Rico than the U. S. Of these some 400 are either branch or affiliated operations of U. S. concerns, or whose controlling interest otherwise lies in mainland hands. These factories provide some 36,000 new manufacturing jobs, almost half of all our manufacturing employment. Our economists have estimated the total investment in these plants at some $345 million, of which only $45 million is government investment in the form of leased real estate and machinery mortgages, loans and minority stock participation. That means that capital investment per worker in our new factories now amounts to some $9,600, a figure roughly comparable to mainland standards.

However, Fomento's operations, surprising to many, extend beyond the quest for additional manufacturing capacity, which will be translated into new manufacturing jobs for our unemployed. Through the years, our activities have led us into the fields of tourism, commercial development, and even agriculture, and today we have investments in luxury hotels, commercial shopping centers and poultry farms. Only recently have we ourselves realized the extent of our interests in non-manufacturing activities, which has resulted in some 75 establishments currently operating or under construction, with a government investment of more than $21 million.

Hotels and Tourists

The great bulk of this investment, some $18 million, is in hotels. Our most publicized venture has been the renowned Caribe Hilton hotel, but few have realized that several years before that we had been instrumental in the establishment of a small apartment hotel. For even as early as 1945, we were aware of the fact that our island's enticing equable climate and natural beauty offered a tremendous untapped potential as a tourist center, and that the basic difficulty hampering this development was the shortage of adequate hotel accommodations. However, despite the highly satisfactory operating experience of the Caribe Hilton, it was not until quite recently that our potential was fully enough realized by private investors to result in the construction of privately-financed facilities. Just last weekend, I attended the inauguration of the 320-room El San Juan Intercontinental. At present we have quite a number of other hotel projects under construction, only one of which is wholly financed by the government. As a result, we anticipate a tripling of our hotel capacity in the 1957-59 period, as contrasted to a mere 33% increase between the date the Hilton first opened and the available capacity a year ago.

Naturally, additional hotel rooms are not enough; restaurants and other supplementary facilities are necessary, too, and we have invested another $1,000,000 to foster them. Thus, today we have a budding physical plant whose pay-off has not yet been fully realized, but which already represents some 1,750 direct jobs, and is responsible for a good share of the gross expenditure by all visitors last year of some $30 million.

In 1954, our program also assumed major responsibility in the pursuit of the Administration's objective of lowering food prices in Puerto Rico through the creation of a balanced competitive condition to be brought about by the development of modern channels of distribution. The results of this program have been the introduction of several new features in the form of modern supermarkets and shopping centers. At present some 23% of weekly island purchases are being done in modern shopping units, i.e. supermarkets and superettes. But more significantly, progress has already been made towards the realization of our goal of reducing food prices in Puerto Rico by 8%, which would represent an annual saving to our community of some $35 million. In furthering this development, we have had to invest some $2 million.

In view of the limited sources of agricultural credit—which are chiefly available only for our traditional crops, sugar and coffee —we have also found it expedient to extend financial assistance to several projects of an agricultural nature, such as numberless poultry and egg farms and several hydroponic farming units. In addition, we have promoted several industrial facilities in support of agriculture, such as a feed and flour mill and a meat packing plant.

Rounding out the Fomento structure is the Ports Authority, a public corporation which is responsible for all our airports and harbors, and in addition also runs the Metropolitan Bus System.

Mostly Private Dollars

Combining the public and private investment in both the manufacturing and nonmanufacturing establishments sponsored by Fomento, the program as a whole constitutes a $425 million enterprise, in which three out of every four dollars have been invested by private firms and businessmen. This enterprise, which reaches into practically every town of our island, provides direct employment for some 42,000 workers.

The important fact is not so much the size of the enterprise itself but what it has meant for the Puerto Rican economy as a whole. Last year, the net income of the Commonwealth amounted to $1,007,000,000; of this $223 million was attributable either directly or indirectly to the Fomento programs that I have outlined in detail. In other words, one out of every five dollars of Puerto Rico's net income was in one way or the other a result of the developmental programs sponsored by Fomento. This $223 million represented a 4½-fold increase over the Fomento contribution in 1951-52.

I have said that tax exemption is the keystone of our development program. Yet we have found that tax exemption by *itself* is not the decisive element. When businessmen look into Puerto Rico as a site for a plant, their primary concern is not alone profits without taxes, but *profits before taxes.*

Attractive Profits

Tax exemption is the all important triggering device which assures that high profits *before* taxes are retained by the corporation. Profits before taxes still have to be much higher in Puerto Rico— sometimes two to three times higher—than in the Continental

United States to induce investment and attract an increasing inflow of risk capital.

During the 19th Century, the relatively high returns on capital invested in under-developed countries of Asia, Latin America and Africa, required by European investors, was referred to as "colonial exploitation." There is, of course, a certain degree of truth in this charge—but the fact is that we are now realizing that a return on investment higher than is obtainable in the familiar environment of home is needed to induce capital to venture into overseas investment. Puerto Rico makes allowance for this and offers the tax exemption as an additional inducement.

We have not found this too high a price to pay for our accelerated rate of development—a rate which few if any underdeveloped countries in the world, including those with infinitely greater natural resources, can match. Our profitable firms average 19% on sales or about 20% net return on the investment, and, despite tax exemptions, government revenues have continued to increase substantially.

At a recent economic conference in the Caribbean, one of Puerto Rico's leading economists mentioned these high percentages of return on sales and investment and caused quite a stir. Yet the fact remains that if Puerto Rico has outstripped other areas present at that conference in its rate of development, due credit must be given to our willingness to assure good returns on investment, assuming of course, satisfactory management. Given a sound structure of business law "profits," as Mr. Eugene Black recently said, "are not a measure of a man's morality, but of his efficiency."

One of the important considerations of management in their decisions to locate in Puerto Rico has been a truly amazing variety of helpful services made available to them through Fomento for getting them started and for keeping them going. Our industrial services include worker recruitment, training of workers and supervisors, installation of utilities, etc.

These exceptional services are among the chief reasons that our plant mortality rate is lower than in the United States. In 1956 the United States plant mortality rate was 9.4% of plants operating and in Puerto Rico it was 6.8%.

To the surprise of many, including some of our own people, our workers have achieved good productivity records.

Labor Productivity

A recent survey indicates that productivity per worker in a wide range of industries is between 85% and 115% of U. S. mainland standards. One electrical equipment manufacturer claims that in the Puerto Rican operation workers equaled the hourly output of their mainland plant while rejects were 50% less. And he is comparing a labor force with only 2 to 5 years experience to a mainland labor group averaging 10 to 20 years of experience. Most managers agree that where substandard performance in a Puerto Rican operation exists, it is almost without exception the fault of poor management or supervision, or else that the factory has been operating for a very short time.

Both the population and the labor force of Puerto Rico are very young—average age is about 19. Also the natural rate of increase is very high for both—about 60,000 a year in population and 20,000 a year for the labor force.

On top of this, the transition in our economy has caused drastic employment declines in marginal occupations like subsistence farming, hand needlework and domestic service. About 100,000 of these low-paid jobs have disappeared since 1950 as people, especially the younger ones, have left for better paid work in Puerto Rico or the United States.

So, in spite of the many good new jobs we have been creating, unemployment has remained very high—80 to 100,000 workers—15% of the labor force, compared with 5% or less in the United States. Moreover, with more than 700,000 young people enrolled in schools and colleges and with the declines in agricultural and home-needlework employment expected to continue, you can see why Puerto Rico's need for more good jobs is so urgent and why migration is likely to continue for some years to come.

Our labor has shown great willingness to learn a new trade and their adaptability is considerable. Workers who a few years ago were cutting cane in the very sugar cane field in which a chinaware plant was built, are now making dinnerware sold throughout the Mainland. Nimble fingers made deft by years of experience in our traditional hand needlework now manufacture the complicated electronic set-ups for advanced aircraft designs.

It is estimated by our Planning Board that for all manufacturing industries "value added" per man-hour rose from $1.70 in 1954 to $2.88 in 1957, an increase of 69% in three years. Part of this phenomenal productivity increase is attributable to the rapid expansion of more highly capitalized industries that was taking place in this same period and to the fact that an increasing proportion of the new plants has passed beyond the starting-up stage. Nevertheless, the rise in output per man-hour within individual industries has also been remarkably high.

Most of the goods manufactured in Puerto Rico by stateside firms are shipped to the states. The market encompasses the East, Gulf and West Coasts. Since, for many products shipping rates over ocean are considerably lower than rail rates, many a market can be reached from Puerto Rico at a lower cost than from hinterland locations.

Financial assistance for new companies is also available through the various Fomento agencies. We prefer, however, to see the bulk of the investment made by the entrepreneurs themselves. For many industries, the availability of many modern industrial facilities—for sale or rent—already built and located in a variety of sites, makes the establishment of the average factory a rather easy procedure. Assistance in site selection is given by our Industrial Planning Division and by our office of Economic Research in cooperation with our Industrial Development Department. We are really organized to serve and to reduce "sunk costs" of establishing a plant.

A Lesson to Underdeveloped Economies

What does this all mean? If for no other reason than enlightened self-interest, Americans should feel a certain responsibility for the success of Puerto Rico's economic development. In this troubled world, for the United States to be able to point out a prosperous Puerto Rico to the uncommitted nations of Asia, Africa and Latin America is of inestimable value. Because Puerto Rico's problems are so similar to the problems of the underdeveloped and often undecided-nations, almost every underdeveloped country of the free world has sent representatives to study the Commonwealth and its programs.

Thousands have come to see and have left convinced that a powerful country like the U. S. harbors no imperialistic designs towards a small country freely associated with this great world power. But beyond the political effect, there is undoubted advantage in showing how social capitalism through free initiative has been able to overcome insurmountable economic obstacles and create a standard of living for our people rapidly approaching the level of the most developed countries of the Western World without loss of freedom.

You will find it difficult to point out a better answer to Karl Marx's thread-bare theories. Many economists have delved into the problems of underdeveloped areas and have come up with reasonable diagnosis of the causes of underdevelopment; few however can point to adequate practical remedies and even fewer to a living example of what can truly be done if the will is there. If I have to say so myself we should all be proud of Puerto Rico and its role in this world—important out of all proportion to its size but quite in keeping with the spirit of its people.

The change in Puerto Rico goes well beyond the economic. In little more than ten years we have changed from a defeated and hopeless community to a proud people. We are proud of what we have done. We are proud of the results we have obtained for our investors from the United States. We are proud of our role in the world as an example to others. We are proud of our relationship with the U. S. and we are immensely gratified that we have given Uncle Sam cause to take pride in us.

With J. A. Hogle Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert D. Cathcart has become affiliated with J. A. Hogle & Co., 507 West Sixth Street. He was formerly with Paine, Webber, Jackson & Curtis, and William R. Staats Co.

A. W. Hough Adds

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—Roland M. Buffington has been added to the staff of A. Wayne Hough & Co., Security Building.

A. M. Kidder Appoints

POMPANO BEACH, Fla.—William J. Eggleton, Jr., has been appointed co-manager with Garland P. Wright of the local office of A. M. Kidder & Co., Inc., 2451 Atlantic Boulevard.

Elected Director

Frank Newburger, Jr., of Newburger & Co., Philadelphia, has been

F. L. Newburger, Jr.

elected a director of Bankers Bond & Mortgage Corporation of Philadelphia.

Two With Phillip Clark

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Herman L. Batchelder and Paul Hardey have become associated with Phillip J. Clark, 817 Seventeenth Street. Both were previously with Amos C. Sudler & Co.

Continued from page 15

Thrift Institutions' Activities In the Mortgage Market

ties and by late summer advances from these reserve institutions amounted to a record $1.2 billion compared with less than $700 million a year earlier. Without this net borrowing of half a billion dollars the association could not have extended the volume of mortgage credit they did because their net inflow of new share capital was less than their net mortgage credit extensions.

As a result of these heavy borrowings and sharp loan expansion the FHLB system in the fall of 1955 cautioned its member institutions "to follow a loan program which will meet loan demands out of savings and loan repayments." Some associations had also gone in heavily for standby commitments and were caught short when they were unexpectedly called upon to honor them because the market failed to ease later as anticipated. It was necessary for some of these associations to sell mortgage loans from portfolio, borrow from commercial banks or from the Federal Home Loan Banks to meet these earlier standbys.

Even though the FHLB eased restrictions on borrowing before 1955 ended, the associations, a little frightened by 1955 developments, pulled in their horns in 1956 seeking to regain greater liquidity in the face of continued tightening in the capital market. Though the net inflow of savings actually increased slightly in 1956 over 1955, savings and loans sharply reduced their net mortgage lending by about $1 billion dollars, reduced their indebtedness to the Home Loan Bank by $200 million and acquired a relatively large volume of Governments. Having improved their liquidity ratios somewhat, the associations in 1957 in the face of an even tighter capital market than in 1956 and sharp declines in mortgage lending by other financial institutions, maintained their mortgage flows at the 1956 level. All of this also without any additional net borrowing from the Federal Home Loan Banks and with a reduced inflow of savings.

Mutual Savings Banks

Somewhere between the markedly different reactions of life companies and savings and loan associations to alternating periods of capital market ease and stringency of the past few years has been the response of mutual savings banks. These institutions showed little change in their total volume of net mortgage flows between 1950 and 1953 as markets changed from ease to tightness, though there was some decline relative to their available long term funds. The sharp rise in mortgage lending characteristic of all institutions in the 1954-55 period was true also of the savings banks. In the past year, however, following a slight decline in 1956, these institutions experienced a more precipitous decline in their mortgage lending activity than other thrift institutions to the lowest level in the past five years.

To understand the full meaning of the varying mortgage market reactions to thrift institutions and their implication for future activity it is necessary to look behind the overall totals into the main mortgage market sectors. For all institutions a large part of the volatility in mortgage lending activity reflected changes in their willingness to invest in Federally underwritten mortgages, particularly those guaranteed by the Veterans Administration. The uniqueness of the action of savings banks lay in their aggressive seeking of GI loans all through the 1951-53 period of credit stringency, while life insurance companies and commercial banks were sharply curtailing such activity. By 1953 the savings banks had accounted for over half of the total net flow of funds into VA mortgages and their new position of leadership in this market was maintained through subsequent years of expansion and contraction. The main contraction did not occur until last year when VA mortgage yields were clearly out of balance with those in the non-insured mortgage sector and in other capital market sectors. It was the decline in VA lending, in fact which accounted almost entirely for the sharp drop in mortgage flows from savings banks in 1957; conventional and FHA mortgage flows changed only slightly.

Beyond State Boundaries

Similarly, the preceding years of sharp expansion during 1954 and 1955 reflected the acceleration in VA mortgage activity, while the relative stability of total mortgage flows in the 1951-53 period reflected the nearly offsetting effects of sharply increasing VA mortgage flows and declines in FHA and conventional lending. It is of interest to remember, in trying to understand why the savings banks industry acquired a steadily increasing volume of GI loans after 1951, that they had then only recently acquired the right to lend beyond state boundaries, that many large banks had more funds to invest than could be absorbed by local markets, and that effective yields on GI loans after discounts were quite favorable compared to local investments available in the capital surplus areas of the East where most savings banks are located. In contrast, the decline in GI loan activity during the 1956-57 period of credit stringency reflected the fact that many savings banks had already built up their VA mortgage portfolios to desired levels and that increasingly large discounts were required to bring yields into competitive position with other capital market securities.

In retrospect, I think it a fair observation that perhaps the most single significant development influencing savings banks' postwar mortgage operations was the amending of most state statutes permitting the acquisition of out-of-state Federally underwritten mortgages. Prior to this legislation, savings banks had been playing a steadily decreasing role in mortgage markets compared with other institutional investors. Since 1950, however, the savings banks have become important national mortgage lenders in government-underwritten mortgage markets, as well as large local lenders.

Conventional Mortgage Trend

The wide fluctuations which have been characteristic of life insurance company participation in mortgage markets in the past years, have also reflected in the main their sharply expanding and contracting VA mortgage market activity. For example, the net acquisition of VA loans by life companies dropped sharply from $1.1 billion in 1951 to about $200 million in 1952 and 1953, then rose subsequently to $1.1 billion in 1954, further to $1.4 billion in 1955 from which peak it dropped precipitously to less than $500 million in 1957. Changes in FHA and conventional lending activity have been considerably smaller over the years. Conventional home mortgage lending by life companies, in fact, increased during both the 1951-52 period of credit tightness and the 1955-56 period of renewed stringency. This past year there has been only a small decline. The suggestion clearly is that life companies in order to maintain their participation in mortgage markets, and hold correspondent organizations together, tend to increase their conventional mortgage flows to compensate for declines in Federally underwritten activity during periods of rising yields in capital markets.

Of course, when one talks about the conventional home mortgage market, one automatically thinks of savings and loan associations. Participation of these institutions in mortgage markets and reaction to changes in capital market conditions, described earlier, reflect in the main their specialized role as conventional home mortgage lenders. This specialization in loans having flexible interest rates has accounted in large part for their steadily increasing mortgage activity in the 1951-53 period and their relatively small reduction in the 1956-57 period of credit stringency. Savings and loans have thus tended to capture a larger share of the home mortgage market during periods of rising interest rates and yields when other lenders have reduced their flow of funds into Federally underwritten mortgages bearing inflexible rates. Moreover, the absolute flow of conventional home mortgage funds from savings and loans has been so large as to constitute more than half of the total flow of funds into this market during the postwar years and in the past three years has been close to two-thirds.

VA Home Mortgage Market

While emphasis of the role of savings and loan associations as conventional home mortgage lender is entirely appropriate, it should not be allowed to obscure the fact that they have also been significant contributors to the VA home mortgage market. In the early years of the postwar decade, in fact, they placed more funds in VA mortgages that any other type of lender and in some recent years when credit has been tight they were expanding their flow of funds in VA mortgages together with savings banks while life companies and commercial banks were sharply curtailing their VA flows. Last year, of course, the savings and loans along with all other major lenders sharply curtailed their VA loan activity. All in all, over the 12 year postwar period savings and loans associations supplied more than one-fourth of the funds which flowed into the VA mortgage market, about as much as life companies and savings banks and considerably more than commercial banks.

In detailing the nature of mortgage flows from the main types of thrift institutions I have deliberately limited the discussion to home mortgages, first because this has been the most important and dynamic sector of the mortgage market in the postwar period and second, because the thrift institutions have played their major role in this market. About three-fourths of the $120 billion which have flowed into mortgages between 1945 and 1957 has been on the security of homes, and of the flow from the savings institutions, four-fifths has been on home mortgages. Savings and loan associations, of course, are limited almost entirely to home mortgages—94% of their mortgage investments in the postwar period. For savings banks and life insurance companies, three-fourth and two-thirds respectively of their postwar mortgage flows have been on the security of one to four family properties. It should not be overlooked, however, that the latter two types of institutions are the largest sources of funds for the relatively small multifamily mortgage market, with savings banks the leading lender by far; in the nonresidential mortgage market, however, only life companies play a significant role.

Factors in Any Outlook

An appraisal of the future market for mortgages and of the role of thrift institutions in that market involves consideration of many factors, including the flow of savings, capital market yields, and monetary policy on the economic front, and administrative and legislative actions in the housing field on the political front. These factors are basic to both a short and long run outlook. Economic forecasting is always hazardous; with respect to housing and mortgage finance it is especially so because this is a field influenced by political as well as by economic developments and I, at least, have not found a way to predict what will be forthcoming from Federal administrators and legislators.

One important consequence of Congressional action, which has already exerted a great influence on mortgage markets has been the virtual disappearance of the VA loan. The VA-guarantee program, which has accounted for about one-fourth of the entire postwar flow of mortgage funds and for more than two-fifth of the flow into residential mortgages, is scheduled to expire this summer for World War II veterans. Even if extended, and though it continues in effect for Korean veterans in any case, it will not be an effective program at the 4½% rate until interest rates fall substantially further. Clearly, the future of the VA loan program is of considerable importance to the future behavior of mortgage markets. The volatility of mortgage flows which has characterized the activity of thrift institutions in recent years, especially life insurance companies, has reflected chiefly developments in the VA mortgage sector. If this program is eliminated from the mortgage scene can we expect a reduction in the volatility of mortgage flows from institutional investors? The answer will depend on the nature of Federal programs to be substituted, including modification of the long-standing FHA program, and on the nature of changes in conventional loan practices.

Fixed versus Market Rates

Apart from other changes, if the Federal Government continues its policy of maintaining relatively inflexible interest rates on Federally insured mortgages, then we may expect a continued volatile flow of mortgage funds in the years ahead. The record, as I have outlined it here, is clear in indicating that the influence of monetary policy on real estate markets has been intensified by a structure of inflexible mortgage interest rates. As monetary policy and capital market conditions have alternately tightened and eased, there has been an ebb and flow of VA and FHA mortgage funds coinciding with diminishing and increasing spreads between fixed Federally underwritten contract interest rates and flexible bond yields. The flow of conventional mortgage funds, on the other hand, has fluctuated narrowly as rates have been free to adjust to changing financial conditions. With an overall structure of flexible rates there would be little reason to expect that the impact of changes in monetary policy on mortgage markets would be any greater than on other sectors of the capital market, though there might be more lag in adjusting to change because of the general stickiness of mortgage rates. With a structure of free rates, volatility in mortgage markets will reflect much more conditions of demand than of supply.

It is, of course, true that the flow of FHA mortgage funds in the past decade has been much less volatile than of VA funds, notwithstanding almost equally inflexible rates until recently. These varying flows have reflected important differences however, in the quality of these loans in the minds of investors and in the demand for these loans from borrowers. My concern is that if the VA program for World War II veterans is terminated of continues ineffective because of submarket rates, there will be a transference of volatility to the FHA program, particularly if the latter program is increasingly liberalized as a close substitute for the VA program. In any event, it is to be hoped that Federally underwritten mortgage rates will be permitted greater flexibility. For, after all, flexible rates on real estate mortgages are just as essential to the proper functioning of capital markets as are flexible yields on corporate securities. Mortgage borrowers should be able to compete on the same terms as non-mortgage borrowers for the nation's available savings.

The likelihood of an expanded FHA program over the years in the possible absence of VA loans raises questions with respect to the reaction of thrift institutions. Prior to the advent of the VA loan program life insurance companies placed a large portion of their funds in FHA-insured mortgages, and would probably react favorably to an expanded and liberalized program in the future. There is every reason to expect that savings banks will expand their investments in this area, also. Savings and loan associations, on the other hand, have had an aversion to FHA loans ever since the inception of this mortgage insurance program 24 years ago for reasons which there is no need to detail here. Currently out of a total savings and loan mortgage portfolio of $40 billion only $1.6 billion or 4% are FHA-insured. Savings and loans have been, as I indicated earlier however, an important factor in the VA loan market holding almost as large a GI loan portfolio at the end of 1957 as life companies and savings banks.

S & L Assns. and FHA Loans

An interesting question to ponder, therefore, is whether in the years ahead the savings and loan industry as a whole will break down their tradition of hostility to FHA loans or maintain traditions and attempt to expand their conventional loan business to fill the gap which would be left in the event the VA loan program expires as scheduled. Long standing traditions take time to break down even when original circumstances giving rise to these traditions change. My guess is that the savings and loan associations will be reluctant to embrace the FHA program for some time. They have already, as you know, proposed a new program for insuring conventional mortgage loans and discussions continue of liberalizing provisions under which conventional loans may be made, including higher loan-value ratios and longer maturities.

Upon the success of such programs as these, I feel, rests the ability of savings and loans to continue effectively to invest the bulk of their funds in conventional mortgage loans. Should the counter proposals of FHA for a similar program of insuring the top 20% of loans (on which interest rates would be free, though subject to FHA review) be enacted then I believe it would be difficult for savings and loans to ignore such a program. Moreover, if a general liberalization of conventional mortgage lending is permitted by state or Federal statutes, the other types of thrift institutions might provide increasing competition for savings and loans in this market, particularly if a policy of inflexible interest rates is maintained on Federally insured loans.

In any event, there is a strong likelihood that the structure of

residential mortgage markets will undergo important changes in the years ahead. The nature of the market will, in the final analysis, be determined as much by the reaction of borrowers to changes in loan terms as any other single factor.

Mortgage Companies

A change in the nature of mortgage lending by thrift institutions will, of course, have important side effects on other institutions in the market. My study of mortgage companies, soon to be published by the National Bureau of Economic Research, showed conclusively that the extraordinary growth of mortgage companies has been directly related to the introduction and expansion of Federal mortgage insurance and guaranty programs. Greater emphasis on conventional mortgage loans by investing institutions will clearly influence the operations of mortgage companies. Only life insurance companies and mutual savings banks deal extensively with mortgage companies and the banks are subject to geographic restrictions on their conventional lending activities. The dependence of mortgage companies on life insurance companies would undoubtedly increase, therefore, with an increased proportion of conventional lending. It is not likely that mortgage companies could find increased outlets for conventional loans among commercial banks and savings and loan associations which are typically competitive originators with, rather than purchasers of, loans from mortgage companies. Furthermore, if savings and loans are bent on expanding the proportion of their own conventional business, mortgage companies would face an important barrier in their efforts to enter this lending area on any scale.

One thing that can be said with certainty about the future course of events in mortgage markets is that if the thrift institutions and others continue to rely as heavily on Federal programs as they have in the past, they will be vulnerable to unpredictable statutory and administrative changes. The alternative to such uncertainties would be to accept the uncertainties of the market place and bear the risk of error in judgment and economic change with minimum reliance on Federal support, direct or indirect.

Turning, more specifically, to the shorter run outlook, it seems clear that the capital market framework in 1958 will be one in which the flow of mortgage investments from thrift institutions is encouraged. The question of flexible interest rates on Federally insured mortgages which I consider so basic to longer run developments will be of much less consequence in 1958 because competitive long-term bond yields which have been declining recently may be expected to stabilize or decline further. The demand for funds by corporations will be less in 1958 than in 1957 and, while demands for financing by state and local governments will continue large, the thrift institutions are only a minor source of funds in this market. In this setting the 5¼% FHA-insured loan, together with permitted discounts, will appear increasingly attractive to thrift institutions, even to the point where discounts may disappear.

Slow-Down in Savings Flow

Offsetting this more favorable outlook in part, is the expected further decline in the flow of savings to the three main types of thrift institutions. The 1957 slowdown in savings represented in part competition from commercial banks paying new high interest rates for time deposits, and in part the continued trend in the life insurance business towards low premium paying term policies for both individuals and groups. The writing of term policies will still be an important influence on life insurance savings in 1958, but competition from commercial banks for savings accounts may lessen as interest rates generally decline.

In any event, the flow of liquid savings generally tends to change slowly from year to year and any decline accompanying a deepening of the recessionary tendencies which are now evident will be small. Moreover, the thrift institutions may supplement their savings inflow by borrowing, or by sale of Governments in order to take advantage of a favorable mortgage market. Admittedly the degree of liquidity which can be achieved from generally reduced government bond portfolios is small compared with the immediate postwar years but for savings banks and life insurance companies net sales have not been inconsequential in recent years. In the past two years liquidation of Treasury obligations has equalled 29% of the deposit increase at savings banks and 13% of the net increase in assets for life insurance companies.

Savings and loan associations, which in the past two years have reduced their borrowing from the Federal Home Loan Banks to well below the 1955 record level may again feel free to borrow in 1958.

Altogether while the flow of savings may decline further in 1958, total long-term funds available to the thrift institutions may be little different or actually greater than in 1957. Moreover, with the demand for business and consumer loans reduced, commercial banks will be in a better position to provide construction and interim financing as a supplement to long-term financing from savings institutions.

If previous patterns of investor behavior prevail then we may expect the rate of increase in net mortgage flows from life companies to be smaller than from either savings banks or savings and loan associations. The longer lag in the response of life companies to changed mortgage market conditions reflects, of course, the basic influence of the mortgage commitment process. Their current volume of mortgage commitments is large relative to premium inflows and funds available for new commitments are not plentiful. I would expect such commitments to turn up significantly after mid-year. In the meantime acquisitions for several months ahead will reflect the reduced volume of commitments made during 1957. Any increase in total mortgage acquisitions of life insurance companies during 1958, therefore, may be expected to be rather small. If a condition of credit ease continues through 1958 and into 1959, we may expect a substantially greater increase in life company mortgage flows in the latter year than inflows from savings banks and savings and loan associations. For 1958, however, I would expect the reverse to prevail. A rough guess on total volume would place the net increase in mortgage flows from all three types of savings institutions at from $8¼ to $8½ billion, compared with less than $8 billion in 1957, a rise of from 5 to 8%. If similar increases should become available from other types of lenders, there would probably be a much better balance between supply and demand for mortgage funds in 1958 than in 1957.

Ellis, Holyoke Adds

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb.—George S. Kilpatrick has been added to the staff of Ellis, Holyoke & Co., 134 North Thirteenth Street.

White, Weld Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Luke V. Lockwood is now with White, Weld & Co., 111 Devonshire Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Government market is fitting the new money raising issue, the 3% bond due Aug. 15, 1966, into the broad pattern of the money market as a whole. This intermediate-term obligation has been well received and there has been substantial purchases by the commercial banks in spite of the beliefs that the maturity is a bit on the long side as far as these institutions' ownership of it is concerned. It had been expected that the Treasury would offer the deposit banks short-term securities in order for them to build up their liquid holdings.

New Short-Term Offering Indicated

However, the Treasury by offering intermediate and long-term issues for refunding and new money raising purposes, has not added to the supply of short-term obligations. This has brought down the yield on the most liquid obligations and is getting the market ready for a sizable short-term new money raising operation by the Treasury in the near future. Declining short-term rates have in the past resulted in lower long-term rates.

Money Supply Enlarged

The new 3% Treasury bond has been well bought despite the opinions among not a few money market specialists that a shorter-term obligation would have been more to the liking of the commerical banks. The deposit institutions, to be sure, went in for the 1956 bond, since funds were made available for the purchase of Government securities by means of the modest cut in reserve requirements. Also, the tax and loan account of the commercial banks are being used to make payment for subscriptions to the 3s of 1966, and this gives some thing additional in the way of appeal to the intermediate term Treasury bond.

In the amount that these new bonds were taken by the commercial banks there was a creation of deposits which means there was an addition to the money supply. This is a very desirable development at this stage of the economy since some reflation is what is needed to overcome the decline which is now going on in business.

Although public and private pension funds, savings banks as well as certain small insurance companies and charitable organizations, along with Government agency accounts, made purchases of the 3s of 8/15/66, there was no real investment appeal in this intermediate term Treasury bond for this type of buyer because the yield was not competitive with selected corporate and tax-free bonds.

Issue Taken by Investors

It is the opinion of most money market followers that there was not nearly as much speculative buying in the 3% of 1966 as there was in the 3½% issue due 1990. The intermediate-term 3% bond does not offer the same appreciation possibilities as were or are available in the long-term 3½% bond. Although the allotments which were made to subscribers of the new 3s were 25% above $10,000 which was in line with expectations, it is believed that the bulk of these commitments in the new money raising bond were made by those which could be characterized as investors.

It seems as though the opinions that money rates will continue to go down, probably through a further decrease in the discount rate, and that money and credit will be more plentiful, most likely by another decrease in reserve requirements, helped to put the 3s of 1966 into strong hands.

Higher Yields on 3½s of 1990 Expected

In the interim between now and sometime in April, probably the first of that month, there will be an opportunity for the money market to digest the longer-term issues which were brought into the picture by the refunding and new money raising operations of the Treasury. It is reported that there is some profit-taking going on in the 3½s of 1990, with the proceeds from these sales being reinvested in Treasury bills or certificates. However, it appears to be the belief of many money market specialists that most of the speculative positions in this bond will not be sold until the six months holding period is over. This will put profits on a capital gains basis.

Also, there is practically no fear yet among those who are known as "not too long" holders of the 3½% Treasury bond, that prices of this obligation will decline very much in the intervening months. Prospects of lower interest rates and more ample credit makes these owners of the 3½s of 1990 feel that quotations will eventually go to new high levels.

Another Cut in Bank Reserves Envisaged

With the debt limit pushed up by $5 billion, it is expected that the Treasury will be in the market soon for a sizable amount of money. It should be large enough so that there will be another decrease in reserve requirements of the member banks of the system. This new money borrowing will have to go mainly to the deposit institutions and that should mean short-term liquid obligations. It ought to help the market action of the longer-term issues.

Now Tampa Manager

TAMPA, Fla.—Bernard Prescott is now manager of the local office of A. M. Kidder & Co., Inc., 506 Florida Avenue.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Charles T. Scott, Jr., Julian M. Hawes, and Wilbur J. Kanak are now connected with Merrill Lynch, Pierce, Fenner & Smith, Board of Trade Building.

Erwin Smith Opens

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, Ill.—Erwin Smith is engaging in securities business from offices on Guilford Road.

R. D. O'Brien Opens

(Special to THE FINANCIAL CHRONICLE)

RIVER FOREST, Ill.—Roy D. O'Brien is conducting a securities business from offices at 7727 West Lake Street. He was formerly with the River Forest Bank & Trust Co.

J. S. Baker Treasurer Of N. Y. Visitors Bureau

J. Stewart Baker, Jr., Vice President of the Chase Manhattan Bank in New York, has been named Treasurer and a Director of the New York Convention and Visitors Bureau, succeeding Joseph P. Binns, Vice President of Hilton Hotels Corporation, who is now President and Chairman of the civic organization.

J. Stewart Baker, Jr.

Mr. Baker is senior supervisory officer in the metropolitan department of the Chase Manhattan Bank, which manages the bank's New York City business at its head office and the domestic branches.

P. C. Henderson V.-P. of Institutional Secs.

Paul C. Henderson has been elected Vice President in charge of the New Mortgage Loan Department of Institutional Securities Corporation, it was announced by Clifford C. Boyd, President.

Organized and wholly owned by the mutual savings banks of New York State, Institutional Securities Corporation performs various services for savings banks including mortgage servicing, appraisal and inspection and debenture service.

Mr. Henderson will retain the office of Assistant Secretary, to which he was elected in February, 1947.

Logan Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—William L. Davis, Nolan H. Gruenwald, David P. Hilliard, Duane H. Robinson, Joseph H. Schettler, and James A. Strunk have been added to the staff of J. Logan & Co., 721 East Union Street.

With Rogers Co.

(Special to THE FINANCIAL CHRONICLE)

FT. COLLINS, Colo. — Joe B. Meyer has been added to the staff of Rogers and Company, 155 North College. He was formerly with Tower Securities Co.

Bank and Insurance Stocks

By ARTHUR B. WALLACE

This Week — Bank Stocks

While this column is of the opinion that 1957 will have turned out to be the best earnings year for the leading New York City banks, it is to be doubted that the shift in earnings trend will be of great consequence. By most industrial measurements, unemployment, steel scrap, motor car production, etc., the current business recession is not one to be merely shrugged off. Yet, in the New York "Times" for Feb. 28 we read that business loans for the leading city banks for the week to the 26th increased $42,000,000. This compared with a decline in the same week a year earlier. And it was the fourth consecutive increase for this group of banks this year.

We are also told in the same article that despite a cumulative decline in loans of $508,000,000 since Christmas, the total of loans on the banks' books was $11,286,000,000, compared with $11,121,000,000 a year earlier. One factor to be borne in mind is that loans on the books at a time when rates are trimmed continue at the rates at which they were contracted so that even though the prime rate for loans has been lowered, the banks will continue for some time to receive the old rates on the great bulk of their loans.

In the meantime, any loss in loan volume will for the greater part bring about an increase in holdings of Government bonds and in municipals and corporates. This will be a reversal of the trend for some time past when the large commercial banks were shifting from investments to loans.

The pattern may be seen in using Bankers Trust, a fairly representative case. The table shows for each of seven years through 1956, the percentage change from the year before in both U. S. Government holdings and in loans and discounts:

	% Change — U. S. Gov't Bonds	Loans and Discounts
1950	—22.6	+34.3
1951	—17.0	+10.9
1952	+22.2	+ 9.2
1953	+ 0.4	— 2.4
1954	— 1.1	+ 4.3
1955	—20.8	+ 5.5
1956	— 9.1	+ 4.7

Thus, for most of this period since 1949 Government bond holdings were jettisoned to enable the banks to supply funds for loans, of course because of the substantially higher rate of return on loans than was being received on investments. Indeed, one may wonder how much of the weakness in bond prices during this period came about as a result of this selling.

But a new element has been introduced that will affect bank earnings favorably. The recent Federal Reserve Board action in reducing reserve requirements of the large New York (and Chicago) banks will add substantially to invested assets. For some time the reserve requirement for the large "downtown" banks in these two central reserve cities was 20% of deposit liability. The Board action reduced it to 19½%.

There is general feeling that the present reserve arrangement is outmoded, and there is increasing sentiment for a change. There seems little reason these days for the central reserve cities to be treated differently, so far as deposit reserves are concerned, than the reserve cities, where the reserve requirement is now 17½%, down from 18%. The drop from 20% to 19½% at the central reserve cities is expected to free about $125,000,000; and banks that are still enjoying a good demand for loans will utilize the additional funds largely in that category. Otherwise much of it will find its way into investments.

At present the minimum legal requirement for central reserve cities is 13%. The American Bankers Association has been working for legislation that will fix a flat 10% reserve for all commercial banks, eliminating the differentials that now exist. But whatever these results may be, it is probable that the banks will see the freeing of enough additional funds to give them more in invested assets.

Then there is the matter of prospective security profits. During the declining market for high-grade bonds the banks saw sizable paper losses in their holdings. In some cases the losses were not merely unrealized; some banks took losses by making sales. But as has been pointed out here on several occasions, this was done for tax purposes. Where there was liquidation, tax losses were realized, but the funds could go right back into the bond market at low prices and high yields. The past few months have witnessed a decided turn for the better in bond prices, and this is working to the benefit of bank portfolios.

Finally, the bank stocks are giving an excellent account. Prices are buoyant, and there appears to be good defensive buying, much of it institutional.

Bank Credit Associates To Hear on Electronics

The Bank Credit Associates of New York will hold their regular dinner meeting on Thursday, March 20, at the Railroad Machinery Club. Reception will be at 5:30 p.m., with dinner at 6:30. Tariff $5.50; reservations should be made with Justin McCarthy, Industrial Bank of Commerce, New York before March 17.

W. Hardie Shepard of Payson & Trask will be speaker. His topic will be "Venture Capital Policy in the Electronics Industry."

With White, Weld

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Thomas A. Lewis has become connected with White, Weld & Co., 30 West Monroe Street. He was previously with Stifel, Nicolaus & Co., Inc.

Continued from first page

Current Outlook for Business And Industrial Relations

quarter of 1957. This decrease is considerably less than the drop in output between the third and fourth quarters of last year. The fall in the production of goods has been accompanied by very little change in expenditures for goods. While production was dropping by $7.4 billion a year between the third and fourth quarters of last year, spending for goods (including net foreign investment) decreased by less than $1 billion a year—from $437 billion a year in the third quarter to $436.1 billion in the fourth quarter. At the present time the buying of goods (including net foreign investment) may be roughly estimated at around $434 billion a year — about $5 billion more than the current rate of production and only $2 billion a year, or less than half of 1%, below the all-time high of the third quarter of 1957.

II. The Antecedents of the Current Recession

The lull which preceded the recession displayed a number of interesting characteristics which are worth noting because of the light that they shed on the recession. Among the features of the lull were slowly falling new orders of manufacturers; slowly rising unfilled orders of manufacturers; slowly rising inventories; irregularly falling output of durable goods; Slowly rising retail trade reaching record breaking levels; more or less unchanging investment in plant and equipment. Let us look briefly at these aspects of the lull.

(1) **New orders of manufacturers.** New orders of manufacturers were falling during the lull. They dropped from $29.2 billion in the last quarter of 1956 to $27.1 billion in the third quarter, just before the recession. The drop in new orders was concentrated in durable goods manufacturing.

(2) **Unfilled orders of manufacturers.** Unfilled orders of manufacturers were also dropping from a high of $64.2 billion in December, 1956, to $57.8 billion in August, 1957. Nearly all of this drop was in durable goods manufacturing.

(3) **Inventories.** There was no net investment in inventories in the first quarter of 1957, and the net increase in inventories in the second and third quarters was less than the normal rate. The ratio of inventories to monthly deliveries changed little and was about the same in July, 1957, just preceding the recession, as in the second half of 1956, and below the monthly average for the years 1952, 1953, and 1954. There was some maldistribution of inventories — retailers were successful in reducing the inventory-sales ratio, but the ratio was rising in manufacturing, particularly in durable goods manufacturing. The important ratio of inventories to monthly new orders increased rapidly in durable goods manufacturing from 2.15 in January to 2.40 in August, 1957. Incidentally, the ratio of inventories to new orders, which one rarely sees quoted, is far more significant than the much publicized inventory-sales ratio.[1]

(4) **During the lull the index of durable goods manufacturing dropped from 167 in December, 1956, to 1962 in August.** There was virtually no movement up or down in the index of non-durable goods manufacturing.

(5) **Retail trade.** Retail trade made new all-time highs in February, April, May, June, and July, and sales in August were only slightly below the peak in July. But an important shift away from the purchase of consumer durables was going on. Personal consumption expenditures for durables was less in the second and third quarters of 1957 than in the first quarter. The drop in the demand for consumer durables led to fairly substantial cutbacks in the production of these goods in the first half of 1957.

(6) **Investment in plant and equipment.** Investment in plant and equipment changed little during the first three quarters of the year 1957. In March and April of 1957 business firms reported to McGraw-Hill preliminary investment spending plans for the year 1958 that were 6.2% below estimated expenditures for 1957. In view of the fact that these estimates were being made well in advance of the year 1958, they were regarded as mildly bullish, since recent experience had indicated that, as the time for actual spending approached and as investment plans became more complete, the total of planned expenditures increased.

In spite of the fact that new orders were falling and that production of durable goods was dropping, the demand for credit was rising (though at a slower rate than the year before), increased in part by rising costs which were pushing up prices.

It will be observed that during the lull the durable goods industries were having their troubles. These troubles were aggravated by cuts and stretchouts in defense procurement contracts and by the overdoing of credit restraint by the Federal Reserve. Credit restraint had been useful in checking the excessive accumulation of inventories late in 1956, but the stiffening of credit restraint continued even after the middle of 1957, when an appreciable amount of slack had developed in manufacturing industries, particularly durable goods manufacturing.[2]

III. The Early Phases of the Recession

The recession first manifested itself in the form of a change in inventory policy. Production was held below deliveries with the result that an increase of $3 billion a year in business inventories in the third quarter of 1957 was replaced by disinvestment in these inventories at a rate of $2.7 billion a year. This change alone meant drop in production at the rate of $5.7 billion a year and accounted for most of the $7.4 billion drop in the annual rate of output between the third and fourth quarters of 1957. New orders of manufacturers dropped from $27.3 billion in August to $25.2 billion in December, and unfilled orders decreased in the same period from $57.8 billion to $51.0 billion.

Throughout the contraction of business in the fourth quarter, spending on housing construction was slowly rising. In fact, the rise began about June, 1957. During the early stages of the recession there was virtually no drop in actual expenditures on plant and equipment. A lag in these expenditures behind the movement of general business is usual, since in periods of contraction there are many projects in course of construction that have to be completed, and the starting of new projects in periods of expansion takes time. But although spending on plant and equipment was almost as large in the fourth quarter of 1957 as in the third quarter, plans for cutting this type of spending by business were being announced. The second McGraw-Hill survey of investment expenditures planned for 1958, based upon returns from companies in late September and early October and announced in "Business Week" on Nov. 9, showed that business firms at that time planned to spend about $2.3 billion less on plant and equipment in 1958 than they had reported as expecting to spend in the survey of March and April. This was a drop of 6% in expected spendings for 1958. It was also a drop of 7% below revised estimates of actual spending in 1957. Early in December the SEC-Department of Commerce survey for the first quarter of 1958 indicated a drop of about 5.2% in plant and equipment below the fourth quarter of 1957.

The contraction of business was aggravated by cuts in defense contract awards from $9.9 billion in the first half of 1957 to $7.9 billion in the second half of 1957 and by the continuation of the stiff credit restraint policy of the Federal Reserve for about three months after the downturn. Stiff credit restraint pushed the bill rate on Oct. 14 to a 24 year high of 3.660%. Even as late as Nov. 11 the bill rate was 3.473.

IV. The Limited Nature of the Recession

The recession is pretty largely confined to a limited part of the economy—production and sale of consumer durables, industrial equipment, and industrial building, and to related industries such as railroads and mining. Other and much larger parts of the economy—the service industries, residential building, and government purchases of goods and services—are expanding. The expanding parts of the economy, measured by expenditures for their goods, are more than two and one-half times as large as the contracting parts.

The concentrated and limited nature of the recession is indicated by the pattern of changes in employment and by the steadiness of personal incomes and retail sales. Betwen August, 1957, and January, 1958, the number of wage and salaried workers in non-agricultural industries dropped by 1,109,000. Of this decrease, 712,000, or about 64%, was concentrated in durable goods manufacturing, which accounts for less than one-fifth of all wage and salaried employment outside of agriculture. In the three large fields of wholesale and retail trade, government, and services (including miscellaneous industries), which together provide more than three-fifths of all non-agricultural wage and salaried employment, the drop in employment between August and January was less than one-tenth of 1%—too small to be statistically significant.

Personal income has scarcely dropped from the all-time high of last August. In January it was less than 1% below August. Retail sales in January were only four-tenths of 1% below the all-time high of July, and they were larger (after adjustment for seasonal factors) than in either November or December. They were also 4.2% larger than in January,

[1] The expression "inventory-sales ratio," though technically correct, is misleading. Equally correct but not misleading would be the expression "inventory-delivery ratio." In the durable goods industries, where there is ordinarily a lag between the receipt of orders and the invoicing of goods, the dates at which sales are technically consummated are far less significant than the dates at which orders are received—in spite of the fact that orders are sometimes cancelled.

[2] An excellent statement of the predominant view of the condition of the economy in the Federal Reserve System was presented by William McChesney Martin, Jr. before the Committee on Finance of the U. S. Senate on Aug. 13, 14, 15, and 19. "Investigation of the Financial Condition of the United States," *Hearings before the Committee on Finance*, 85th Congress, First Session, Part 3. Mr. Martin's statement shows clearly how badly the Federal Reserve was misjudging the condition of the economy in late summer of 1957 and why it was overdoing credit restraint.

1957, when the country was threatened by inflation and when there was widespread belief that people were spending too much. Perhaps the most remarkable thing about January retail sales is that the increase over December occurred in the face of the largest month-to-month rise in unemployment that has occurred since the monthly labor force survey was started in 1941.

The recession is getting deeper, as the large increase in unemployment in January indicates, but the recession is not spreading to new parts of the economy. This latter fact is also shown by the employment report for January. Between December and January wage and salary employment outside of agriculture (adjusted for seasonal factors) dropped 160,000. But employment in durable goods manufacturing (the heart of the recession) dropped by 258,000. There were also other small decreases of employment in the manufacture of non-durable goods, and in mining and construction. On the other hand, the expanding parts of the economy continued to expand, in spite of the general drop in employment. Thus, wage and salary employment, government, wholesale and retail trade, services, and miscellaneous occupations increased by 201,000 after adjustment for seasonal factors between December and January.

V. The Probable Duration of the Recession

When will the recession end? The end will come when there is a rise in the so-called income-determining expenditures — that is, (1) the outlays of the governments (local, state, and national) for goods and services, and (2) gross private investment. Changes in these outlays up or down tend to produce increases or decreases in personal incomes and thus increases or decreases in personal consumption spending. Let us examine briefly the six principal elements in government spending and gross private investment—Federal purchases of goods and services, state and local purchases of goods and services, investment in housing, investment (or disinvestment) in inventories, investment in plant and equipment, and net foreign investment.

(1) **Federal purchases of goods and services.** Federal spending for goods and services dropped by about $900 million a year between the third and fourth quarters of 1957, but it will increase slowly during the first half of 1958. Total cash outlays of the Federal Government (which include transfer payments) are expected to be about $1.1 billion greater during the first half of 1958 than in the second half of 1957. This small rise reflects the government's lack of familiarity with the problems of the country and its inadequate planning for dealing with the recession.[3] Under pressures from Congress and public opinion, this rate of spending will probably be exceeded by a small amount.

Much importance is attached to the increased defense orders that the government is placing in the first half of 1958. President Eisenhower reports that major defense contracts will be stepped up from $7.9 billion in the second half of 1957 to $13.4 billion in the first half of 1958—an increase of $5.5 billion. This increase makes any proposals for stepping up public works look picayune. Largely due to new defense orders, the backlog of unfilled orders in the transportation equipment industry (mainly airplanes) increased by $444 million between November and December.

Rising defense orders are important, but time is required for them to produce effects. When will they be placed? Will the bulk of them be placed by March or April, or not until May or June? Some weeks are required for the orders to produce much economic effect. After primary contracts have been placed, sub-contracts must be arranged and often sub-sub-contracts. Hence, most of the effect of orders placed in the first half of 1958 will not be felt until the second half of the year or later.[4]

(2) **Purchases of goods and services by local and state governments.** The purchases of goods and services by local and state governments has been rising recently by about $3 billion a year, and a rise at this rate or slightly more may be expected for some time. Many states and cities are having trouble finding acceptable sources of revenue, but expenditures will rise because the compensation of employees is going up and the need for schools, streets, roads, more water supply, and many other forms of public works is pressing.

(3) **Investment in housing.** Investment in housing has been growing slowly without interruption every month since June. In December new construction contract awards for housing were 8.5% above December, 1956, and in January new housing starts, after adjustment for seasonal factors, were larger than in any month of 1957 except August and 9.5% above January, 1957. Although the recession discourages housing, the present rate of housing construction is below current requirements measured by household formation and demolitions, and the growing availability of mortgage money is an important favorable influence. Hence, investment in housing seems likely to continue to expand slowly in the face of the recession.

(4) **Investment or disinvestment in inventories.** Up to the present, disinvestment in inventories has been by far the most important influence for contraction in the economy. It has been occurring mainly in durable goods manufacturing. In the last quarter of 1957, disinvestment in non-farm inventories was going on at an annual rate of around $3.4 billion. In the first quarter of 1958 the rate of disinvestment is undoubtedly greater — probably at least $5.0 billion a year, and possibly closer to $6.0 billion a year.

The consumption of most products has been going on at almost the same rate as in the last quarter of 1957—January retail sales of durable consumer goods, after adjustment for seasonal factors, were slightly greater than in any of the three months of the last quarter of 1957; construction of all kinds in January, after adjustment for seasonal factors, was almost the same as in December; and housing starts in January, as I have pointed out, were higher than in any month since August. But the index of the production of durable goods, which was 152 in the last quarter of 1957, had dropped to 143 in January.

An additional indirect indication of disinvestment in inventories is the fact that between Dec. 31, 1957, and Feb. 19, 1958, commercial and industrial loans of weekly reporting member banks dropped by $1,788 million in comparison with $771 million in the corresponding period of last year. The output of steel has dropped far faster than in the recession of 1953-54, and the index of primary metals production in January stood at 100 (1947-49=100) in comparison with 103, the low point in the recession of 1953-54.

The very fact that disinvestment in inventories has been going on at a rapid rate raises doubts as to whether it will continue much longer at this same rate. But a drop in the rate of disinvestment in inventories would be an influence for expansion.

(5) **Investment in plant and equipment.** In January expenditures on plant and equipment were still running at a high rate—total industrial, commercial, and public utility construction was 4.5% above January, 1957, and, after adjustment for seasonal factors, was only 1.5% below the monthly average for the last quarter of 1957. But a drop in these expenditures is ahead. This is indicated by the announced plans of companies and by the drop in new orders for machinery that has already occurred. The decline in spending on plant and equipment in the second quarter of 1958 may be $3 billion a year below outlays in the first quarter.

Spending plans on plant and equipment are affected by the widespread belief among business men that the high rate of investment during the last two years has created a general excess of productive capacity. This is an illusion created partly by the fact that during 1957 both the demand for goods and the output of goods failed to grow at the normal rate, and partly by overestimates of recent growth in productive capacity. Let me digress briefly to discuss misconceptions about productive capacity.

Questions Excess Capacity Concept

The concept of a **general** excess of productive capacity (as distinguished from an excess in a particular industry) is a tricky one. A general excess means that capacity is too large in relation to the ability of the economy to create demand for goods. The demand for goods depends primarily on (1) the spending plans of government; (2) the ability of the economy to create investment opportunities (and thus incomes); and (3) the disposition of consumers to draw on either their incomes or other resources (such as their credit or their savings) to buy goods. Over the long-term the American economy has demonstrated its ability to increase the demand for goods (expressed in constant prices) by 3% to 3.5% a year. There is no reason to believe that the economy is losing its capacity to generate demand. On the contrary, the rapid expansion of technological research in recent years, giving the economy growing capacity both to create investment opportunities and to stimulate consumer spending, has undoubtedly raised the capacity of the economy to increase the demand. Furthermore, the demand for goods is being more or less steadily increased by insistence that the government provide us with more badly needed services—more security, more education, more research, more satellites, more and better roads and waterways, and a multitude of other things.

During the year 1957 both the growth in the demand for goods and the growth in the output of goods were restricted by a variety of reasons that are not yet well understood. The demand for goods was restricted in part by cuts in Federal Government spending plans, by credit policy, by shifts in demand from durables to non-durables which have affected investment plans in durable goods manufacturing, and, especially during the last four months of the year, by the recession. The conditions retarding the growth in physical output during 1957 are even more obscure than the impediments to increases in demand. An important obstacle to the growth of output in the durable consumer industries was the shift in demand away from such goods, even before the recession during the lull in the first nine months of the year. The growth of output also seems to have been impeded by difficulties in getting production out of new equipment and by inefficiencies in management, and perhaps by inefficiencies in the shops.

Had demand for goods and the output of goods increased at a normal rate during 1957, expenditures for goods in the last quarter of the year would have been at the rate of about $450 billion a year instead of $436 billion, and the output of goods would have been at the rate of about $450 billion (or a little more) instead of at the rate of $432.6 billion. In other words, expenditures for goods in the last quarter of 1957 were about $14 billion below normal and the output of goods was around $18 billion below normal. No wonder thousands of American businessmen reached the erroneous conclusion that the economy is suffering from a general excess of productive capacity.

The belief that the country has a general excess of productive capacity appears to be based in part upon the McGraw-Hill survey of capital expenditures which estimated a rise of over 17% in manufacturing capacity between 1953 and 1956. The McGraw-Hill survey of investment plans is an invaluable piece of economic information, but it overstates the rise in manufacturing capacity. This is shown by the change in the actual rate of factory output between two periods when factories as a whole were producing at about capacity—May and July, 1953, and December, 1956.

In May and July, 1953, the index of factory output reached 139; the index of durable goods manufacturing reached 156 in May and 157 in July and August. At this time the manufacturing industries must have been operating fairly close to capacity because weekly hours were 40.7 in May and 40.3 in June. In durable goods manufacturing hours were 41.5 in May, 40.8 in July, and 41.1 in August. In May, 1953, the steel industry, a key determinant of general industrial capacity, was operating at 100.1% of theoretical capacity.

The next peak in factory output occurred in December, 1956, when the index of factory output reached 149, and the index of durable goods output, 167. In December, 1956, average monthly hours in manufacturing were 41.0, and in durable goods manufacturing, 41.9. The steel industry was operating at 99.6 percent of capacity. Hence, factory output in December, 1956, must have been pretty close to capacity. The increase in factory output between the two periods of capacity operation—May and July, 1953, and December, 1956—was only 7.2 per cent for all manufacturing and only 6.4 per cent for durable goods manufacturing. These amounts are less than half the increase in capacity estimated by McGraw-Hill and well below the long-run 3 per cent annual rate of rise in the real expenditures for goods.

Although the belief that the country possesses great excess capacity is mistaken, I do not believe that this error will be quickly corrected. Hence, it will be a deterrent to investment for some months to come. Furthermore, although there is no general over-capacity, some specific kinds of productive capacity, such as factories for producing medium-priced automobiles, are probably excessive.

(6) **Net foreign investment.** Net foreign investment has been dropping and, in view of the conditions around the world, will undoubtedly continue to decrease. A drop of around $500 million a year between the first and second quarters is probable.

The foregoing analysis of the probable changes in the principal income-determining expenditures leads to the conclusion that these outlays will probably be slightly higher in the second quarter of 1958 than in the first quarter. It is a conservative estimate that government spending (federal, local, and state) will rise between the first and second quarters by about $1.5 billion a year and that housing outlays will continue their increase of about $500 million a quarter. If there is a drop of around $2 billion in disinvestment in inventories, a drop of around $3 billion a year in investment in plant and equipment, and a drop of $500 million in net foreign investment, there will be a net rise in income-determining expenditures between the first and second quarters at the rate of around $500 million a year. This is a small amount, and it is a result of rough estimates, but the estimates have been made conservatively to avoid overoptimism. Of course, the possibility that total income-determining expenditures will drop rather than rise cannot be excluded. Far more likely, however, is the probability that these expenditures will grow by more than my crude estimate of $500 million. In addition, personal consumption expenditures will be increased by the rise in transfer payments and by the usual tendency of recessions to raise the proportion of disposable incomes spent on consumption. The general conclusion is that the gross national product in the second quarter of 1958 will be slightly larger than in the first quarter. In other words, the first quarter of 1958 will mark the bottom of the recession.

VI. What Should the Government Do About the Recession?

The fact that unemployment has increased rapidly without spreading to new parts of the economy or without significantly reducing personal incomes indicates that the period of contraction will be short. These characteristics of the recession, however, do not assure that the eventual recovery will be either vigorous or complete—though brisk buying to replace wastefully depleted inventories would not be surprising before the end of the year. The recession is obviously causing considerable suffering and waste of resources, and it is increasing the likelihood of long-run creeping inflation by retarding the growth of productive capacity and causing the community to live off inventories. Hence, the government should do what it can to stimulate revival. There are two principal types of proposals—tax cuts and public works.

Any remedy, to do much good, would have to take effect within the next two or three months. It would be difficult to devise a tax cut that would take effect promptly and that would not be arbitrary in its impact. In order to avoid a dangerous inflationary effect next year when the cash budget, even under present taxes, will show a deficit, the tax cut would have to be temporary. But the stimulating effect of a tax cut known to be temporary would be small. The prospective cash deficit next year will be the result of requests for appropriations beyond the President's original recommendations (Secretary McElroy has recently indicated that he will ask from $1.3 to $1.7 billion beyond the amount originally recommended by the President), and of insistence by Con-

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3 This situation is illustrated by Mr. Eisenhower's reply on Feb. 26 to a question concerning his stand on raising unemployment benefits as recommended in his Economic Message of 1954. He replied that the matter had not been brought to his attention recently, and he suggested that the reporter ask Secretary Mitchell to discuss the matter with him so that he would not have to remember it. Thus, the President has to be reminded to think of the plight of more than four million unemployed.

4 It should be noted that an original increase of 5.5 billion in government contracts will produce a much larger increase in the unfilled orders of manufacturers because there is much double counting in the figures on unfilled orders. The double counting results from the fact that the figures on unfilled orders are not net, but gross. As parts of the primary contracts are farmed out, sub-contractors get unfilled orders but the prime contractor does not report a smaller net volume of unfilled orders on his books. Hence, an original increase of $5.5 billion in government contracts might eventually raise unfilled orders as reported by manufacturers by $10 billion. But some months may be required in order to bring about this result.

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gress on appropriations beyond the President's requests.

Larger expenditures on many forms of public works are desirable because the United States is a growing country and needs to develop and conserve its natural resources, provide itself with adequate roads and recreation areas, and rebuild parts of its cities. But new public works programs would not produce increases in spending soon enough to mitigate the recession. Decisions to accelerate construction now in process or to speed up the letting of contracts that will soon be let anyway would do some good—though on a limited scale. The difficulties of getting prompt increases in spending on public works is illustrated by the slow progress made on the interstate road system. Even in the present fiscal year, federal aid highway expenditures are rising only $802 million above the previous fiscal year, and the increase contemplated in the coming fiscal year is even less—only $611 million. This is a disgraceful record. Hence, proposals for new programs of public works, though meritorious in themselves, are not an effective way of dealing with the recession.

Three steps by the government would be useful. One would be aggressive easing of credit by the Federal Reserve. This would stimulate housing by increasing the demand for mortgages. The Reserve has moved rather slowly, but the recently announced easing of bank reserve requirements is a moderate step in the direction of easier money. A second step would be for the government (1) to speed up the filling of orders for goods that have already been placed (including the speeding up of the completion of construction projects), and (2) to speed up the placing of orders that are almost ready to be placed and that would be placed within the next two or three months anyway. These two kinds of action promise more immediate results than starting new programs. The greatest opportunities to accelerate the completion of existing projects and to move forward by several months the placing of new orders are in the Defense Department. I have already stressed the fact that considerable time is needed to translate defense orders into business spending. The time required before sub-contracts actually begin to produce orders in the business world emphasizes the need for prompt placing of orders by the Defense Department. Incidentally, placing orders now rather than several months later will limit pressure on our resources a year or so hence when defense production will be considerably larger than now, and will thus help retard the upward creep of the price level. A third step would be assurance that the Federal Reserve would not revert to its extreme credit policies of last year, but will permit the price level to adjust itself to rising costs. Permitting the price level to rise as rapidly as costs does not assure that any individual firm will be able to pass on rising costs in the form of higher prices. But the expansion of new investment will be impeded until business believes that Reserve policy will give enterprises a reasonable chance to make money.

VII. Developments in Industrial Relations — Contract Administration

Let us turn from the general economic situation to industrial relations. I shall discuss these developments under two separate heads — contract administration and the negotiation of contracts. In the administration of contracts there have been three principal developments: (1) the shift from policies of expediency to policies based upon the long-run interests of the firm; (2) the spread of practices of notification and even consultation; and (3) the growth of more efficient and workable administrative arrangements and procedures.

1. The shift from policies of expediency to policies based upon the long-run interests of the firm. It is easy to see why newly organized workers, who had never had a chance to get their grievances adjusted through regular procedures, should prefer direct action, or the threats of direct action, to using the grievance machinery provided in the new union-management contracts. Indeed, a few unions, out of a sense of insecurity or for other reasons, deliberately encouraged direct action and even trained their plant officers in these practices.

Some managements from the very start adopted the only policy that will work in the long-run—the policy of being fair but firm. That policy consists of conceding to the union and the employees the rights that the contract, fairly interpreted, gives them, but of conceding them no more. It also consists of standing firmly for the rights that the contract gives management, even in the face of harrassing tactics. But unions developed so rapidly between 1937 and 1945 and their growth coincided so closely with problems of wartime production and postwar adjustment that many managements failed to base their industrial relations policies upon the long-run interests of the firm. Some firms adopted the policy of meeting militancy with militancy. Many others adopted the policy of meeting militancy with appeasement. It is amazing how many large companies that had been quite generally well managed adopted a policy of expediency, tolerated wildcat strikes, slowdowns, sickness epidemics, refusal to work overtime, and allowed shop committees and stewards to roam the shops freely, challenging orders of foremen and stirring up grievances. In some companies a policy of appeasement was being practiced at the shop level in order to meet production schedules, but higher management was not aware of what shop managements were doing.

Both the policy of meeting militancy with militancy and the policy of meeting militancy with expediency resulted in high costs and in the failure of managements to retain proper control of the shops. Furthermore, the high costs resulting from these policies grow with the passage of time. But when a management has been meeting militancy with militancy or meeting militancy with appeasement, the shift to a policy of being fair but firm is not a simple matter. In either case, a change may temporarily stimulate pressure tactics by the union. A shift from a policy of militancy to a policy of fairness may arouse pressure tactics because it is interpreted as a sign of weakness; a shift from appeasement may be interpreted by the union as an attempt by management to undermine the union.

For these reasons many managements have been slow to abandon the policy of militancy or the policy of appeasement or have failed to carry through a complete abandonment of their previous policies. Nevertheless, the mounting costs of a policy of militancy or a policy of appeasement have been forcing many companies during the last five years to shift to the policy of being fair but firm. This period too has seen many important strikes provoked by the determination of managements, at long last, to enforce the observance of the contracts in their plants. The current recession is giving companies that have not yet adopted sound long-term industrial relations policies a good opportunity to do so with less than usual danger that the change will provoke strikes.

(2) The spread of practices of notification and consultation. Many managements were at first inclined to keep their contacts with the newly-formed unions to a minimum. They feared that even discussion of problems with union officials would be interpreted as conceding the right of the unions to veto management decisions. A few managements went to the opposite extreme, and made some decisions (such as putting in new production standards or incentive rates) only after union committeemen had given their approval.

As the men in management and the local union officers have got to know one another better, managements have seen that it is desirable to give union officers advance information about management actions—particularly about proposed technological changes—and about management problems, such as problems of meeting competition. In many instances, union officers have been invited to make suggestions as to procedures. These developments involve no surrender of rights by management—no recognition of a right of unions to veto management decisions. These developments are simply a commonsense recognition of the fact that unions are less fearful of changes and easier to deal with if they understand what is going on. The practice of notifying union officers about changes and consulting with them seems to be spreading.

(3) The growth of more efficient and workable administrative arrangements and procedures. These changes have taken many forms. Some of them have been purely administrative or have been outside the contract. Others have involved changes in the contracts, but essentially non-controversial changes. Among the important changes have been:

(a) Developments in arrangements for handling grievances—keeping both foremen and shop stewards better informed on the terms of the contract, improving methods of investigating complaints, speeding up consideration of cases;

(b) The development of carefully considered policies for handling discipline;

(c) Improvements in setting production standards or wage incentives. Industrial engineering departments have been enlarged and given a better opportunity to do their work. In many cases, where the technology is not particularly adapted to incentive methods of compensation, measured day work has been substituted for incentives; in other cases plans have been redesigned and made more equitable and, in many instances, simpler;

(d) The development of job evaluation plans to reduce wage inequities;

(e) The redesign of seniority arrangements to meet better the principal desires of both employees and managements. Changes in seniority arrangements have had the effect of reducing the extent to which long service employees are laid off while short service employees are working, of reducing multiple bumping, of defining more clearly and objectively the tests of ability to do the work, and of protecting managements against excessive retraining costs when layoffs must be made.

The great progress that has been made in contract administration during the last 10 years is a credit to both managements and unions. Nevertheless, much remains to be done. There are still plenty of companies that are following a policy of expediency in handling industrial relations and that have not based their labor policies upon the long-run interest of the company. The present recession offers a good opportunity for managements to reform their labor policies—not by attempting to take advantage of labor, but by making it plain that their policies will be both fair and firm and that shop practices that interfere with efficiency cannot be tolerated.

VIII. Developments in Industrial Relations—Contract Negotiations

It is in the field of bargaining that the greatest unsolved problems of industrial relations exist. Methods of bargaining have been greatly improved, preparations are more thoroughly made and are presented in a more orderly fashion. In a few cases, bargaining has been preceded by prenegotiation meetings that have explored the general situation and paved the way for the later discussions. Furthermore, tested by the ratio of cases in which settlements are reached without strikes, collective bargaining has been a success. The strong and aggressive unions that pioneer in raising wages and getting new fringe benefits seem to have shown skill in exacting from employers almost the last cent that could be obtained without forcing a shutdown.[5] These unions have also developed considerable skill in whipsawing employers.

Though collective bargaining has produced industrial peace and, on the whole, good industrial relations, it has produced larger economic settlements than the community can afford to pay without inflation. Roughly, the average collective bargaining settlement has been more than twice as large as it should have been. This is indicated by the fact that hourly compensation of employees has risen more than twice as fast as manhour productivity. The hourly compensation of employees in private industry outside of agriculture increased 61.4% between 1947 and 1956, but real product per employee hour increased less than half as much—by 26.1%. The tendency for wages to outrun productivity has been particularly strong in the last two years. In this period, output per manhour in all private non-agricultural industries rose only 1.4% and in manufacturing only 1.1%—or less than 1% a year. But the compensation of employees has been rising by around 5% a year.

Fortunately, industry has been able to pass on most of the rising labor costs in the form of higher prices so that the principal effect of excessive wage settlements has been creeping inflation rather than unemployment. Nevertheless, there has been a mild cost-price squeeze which (together with other causes) may have contributed to the current recession. Thus, between 1953 and 1956, the proportion of business income after taxes going to profits dropped from 6.5% to 6.2% and the proportion going to employees rose from 70.9% to 72.5%. These trends continued through 1957. This it is apparent. I think, that through the development of collective bargaining a powerful instrument making for slow inflation has been built into our economy.

The tendency for wage increases to outrun increases in productivity cannot be halted in the foreseable future by voluntary restraint on the part of unions—though there is a good possibility that with the passage of time the pioneering unions will gradually become less aggressive. It is neither humane or politically possible to close the gap between rising wages and rising productivity by using credit policy to create and maintain large armies of unemployed. Nor are there any feasible changes in laws that would eliminate the excessive power of unions over wages—though there are changes which would curb excesses of power in other directions. Proposals to break up the big unions are both impracticable and undesirable. If the tendency for collective bargaining to raise wages faster than the rise in productivity is to be halted, this will have to be accomplished either by increasing productivity by methods which do not simultaneously raise the demand for goods or by stronger resistance of employers to union wage demands.

Productivity can be raised without increasing the demand for goods by administrative changes and inventions which raise the output of the existing plant and equipment of industry. Examples of such methods are better selection and training of workers, better scheduling of work, better maintenance of equipment, better setting of production standards, elimination of make-work practices, and redesign of products to simplify manufacturing processes. But one can hardly expect more and better industrial engineering and better management alone to close the wide gap that exists between wage settlements and the growth of productivity. If the gap is to be closed, this must be accomplished in large part through the process of collective bargaining—by stronger resistance on the part of employers to union wage demands.

The present period of recession will probably see the gap between rising wages and rising productivity temporarily closed, or almost closed. This will be accomplished, however, not primarily by the success of employers in negotiating smaller wage settlements, but rather by their success in raising productivity at an abnormally fast rate. The abnormally rapid rise in productivity will occur partly because the recession will help employers correct bad shop practices and partly because in 1958 employers will be getting the the full benefit of many technological changes made during the last two years.

Auto Wage Settlement

Wage settlements in 1958 will be affected by the determination of the unions to press stiff demands regardless of the recession, and by the unwillingness of most employers to take strikes. The principal wage negotiation in 1958 will, of course, be in the automobile industry. The automobile companies, if they desired, could probably hold the total increase in wages and fringe benefits to around 2.5 per cent a year—about the highest increase that would be non-inflationary. But such a settlement would differ so sharply from past settlements and from the expectations of the union rank and file that it could probably not be accomplished without a strike, or at least without much misunderstanding and bitterness.

The employers could undoubtedly win a strike—at least if they were willing to stand together. Their bargaining position is exceptionally strong, partly because of the recession and partly because the public does not care for the 1958 cars. They are inconveniently long, inconveniently wide, inconveniently low, wasteful of gas, expensive to maintain, clumsy, and ugly. But I do not expect to see the automobile com-

5 If it were possible to do so, the strike rate should be computed, not on the proportion of settlements made without a strike, but on the proportion of settlements reached without a strike by the pioneering and aggressive unions — the building trades unions, the miners, the teamsters, the automobile workers, the steelworkers, and a few others.

panies take full advantage of their strong bargaining position. Hence, I expect to see the automobile industry raise wage and fringe costs by considerably more than 2.5% a year.

Let me digress briefly to call your attention to the fact that the automobile industry will be meeting increasingly severe competition from many sources during the next several years. Hence, the industry has strong need to make all of our present stock of 50 million cars badly obsolete. The growing competition being met by automobiles is shown by the fact that between 1953 and 1957 personal consumption expenditures increased by 21.6 per cent, but outlays for new cars, used cars, and parts increased by 18.9 per cent. Between 1953 and 1956 (the latest date for which detailed figures are available), when spending for new and used automobiles increased by 11 per cent, many important kinds of personal expenditures increased far faster:

	% Increase
Elementary and secoudary education	55.1
Higher education	47.7
Barber shops and beauty parlors	47.7
Interest on personal debt	37.2
Boats and pleasure aircraft	35.0
Privately controlled hospitals and sanatoriums	31.0
Telephone and telegraph	29.2
Foreign travel	28.4
Medical care and hospitalization insurance	21.8
Electricity	21.4
Physicians' fees	16.1

All of these and other forms of competition for automobiles will grow in the future and, as Americans increase the variety of things they would like to own and would like to do, the automobile industry will find competition for a share of consumers' incomes increasingly stiff. Of course, other industries will find the same thing.

Probably the greatest competitor of the automobile industry (and of many industries) will be children. There has been a great rise in the number of births in the United States beginning about 1945, and these children are now beginning to reach high school age. They will soon be ready for college. The cost of giving them proper educational opportunities will tax the resources of tens of millions of families. It is expected that high school enrollment, for example, will increase from about 8.3 million in 1957 to 9.4 million in 1960, and to 12.1 million in 1965. The expected increase in college enrollment will be even greater in terms of percentages.

The competition from children and from many new forms of durable consumer goods and new activities will be particularly hard on the medium-priced cars. As a matter of fact, the medium-priced cars as a group have been losing out for the past three years. In 1955, these so-called medium-priced cars accounted for 36.3 per cent of all automobile production; by 1957, their share of the market was down to 29.9 per cent, and in the first eight and a half weeks of 1958 down to 27.4 per cent. Further more, the desire of Americans consumers to spend their incomes in many new ways will increase their interest in cars that are economical to operate and to maintain. Hence, the prospect is good that the automobile industry will soon be able to make the present cars pretty completely obsolete. This will help sustain the demand for new cars and will be good for consumers, the industry, and the country.

The real test of the ability of employers to close the gap between rising wages and rising productivity will ocur during the next few years after the recession is over. I believe that the gap can be narrowed, though not eliminated, through more and better industrial engineering work. I do not believe that the gap is likely to be narrowed to any substantial extent by collective bargaining. In most industries, employers could not do much about closing the gap through bargaining except by accepting long and expensive strikes. I do not believe that most employers would be willing to do this in periods of good demand and high employment, especially if their competitors were still making goods. Furthermore, in some industries (such as steel or airplanes) long strikes would not be tolerated by the public. Consequently, I conclude that, during most of the time in the foreseeable future, wages will continue to outrun productivity by a small amount and that the maintenance of reasonably full employment will require a slowly rising price level.

Securities Salesman's Corner

By JOHN DUTTON

Prospecting in Bear Markets

During periods of declining business activity, stock prices, and investor apathy toward securities there are still ways and means that will provide the resourceful salesman with a continuing income. In many of these instances it is possible to build relationships that are lasting and beneficial for many years. Let us look at a few worthwhile opportunities that you may be missing for developing new business now. When the market was making new highs and individual investor interest was much greater than it is today possibly you didn't have the time to go after some of these profitable accounts that you might look at now.

Bank Directors: In your town there are some well managed and progressive banks. There is a wide local interest in the stock of these institutions. In periods of declining investor confidence the banks in your home town enjoy the confidence of the public. Among the directors and officers of these institutions there may be certain individuals who may wish to sell some of their stock or buy some, or they may know people who do. Identify yourself if possible with these institutions and if you are fortunate enough to obtain some orders in sound local banks you can do some business with other people who would also wish to buy or sell. This can be a source of new business and good contacts.

Officers and Directors of Local Business Firms: The same situation holds here as with the banking institutions. Sometimes these contacts can also lead to a substantial finder's fee, or financing through an underwriting. Whether you think that every firm in your area has been pretty well connected or not, you may be surprised to find that there are still some excellent opportunities for developing business along these lines.

Seek Out People Who May Be Making Unusually High Incomes Now: There are always people who are doing very well. If you are in a larger city notice the names of the people in the entertainment world whom you may contact. Some of them have advisors, others are making large weekly salaries and despite high taxes still have the problem of saving some of their income for the future. They may welcome some practical ideas. One particular group where you can gain a foothold may lead you to others, since people in show business are usually cooperative in recommending you to others. Some of the most productive life insurance sales have been made to show people and radiation has developed some other very large sales. Horse jockeys who have difficulty procuring life insurance at standard rates, hockey players, football professionals, boxers, wrestlers, and others in the entertainment and sports world can offer you a possibility of breaking into some excellent Mutual Fund sales if you are fortunate enough to do business with one of these people. They all have friends and they talk about such things as security, and having some capital later on when they can't ride, fight, or dance.

Semi-Bankrupt Business Firms: Keep your eyes open for firms that may be having severe business difficulties. Possibly you can work out a substantial commission be negotiating the sale or merger of these about to go broke companies that have a record of sizable losses during the past few years. The losses to a successful company in the same line of business can be worth 52c on the dollar in actual tax savings, and that assets has real value. There may be trademarks, patents, and other intangibles, in addition to inventory and fixed assets, that may be of considerable interest to the buyer. Sometimes the man who is alert and on the job gets there first with a deal while others sit around and don't try because they think it is not worthwhile to do so.

In the last analysis activity creates activity. If you direct your energy, your thinking, and your action constructively, you will create opportunities for doing business, either in bonds, stocks, local issues, trading, buying or selling a business, or even landing a workable underwriting. Besides, the man who is busy is not going to have ulcers from worry.

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — George G. Rhinehart and Joseph A. Simons are now with Merrill Lynch, Pierce, Fenner & Smith, 18 Milk Street.

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — George M. Morris is now affiliated with Hornblower & Weeks, 75 Federal Street.

Joins Burke & MacDonald

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — Leonard W. Jurden, III, is now with Burke & MacDonald, Inc., 17 East 10th Street, members of the Midwest Stock Exchange.

Joins Schreiber, Dail

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—John E. Krings has become connected with Schreiber, Dail & Co., 315 North Seventh Street.

P. de Rensis Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Hyman Litinsky is now affiliated with P. de Rensis & Co., 126 State Street, members of the Boston Stock Exchange.

American Secs. Associates

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—American Securities Associates, Inc., has been formed with offices at 3426 East Lake Street to engage in a securities business. Officers are William I. Davis, President; D. L. Davis, Vice-President, and Harry S. Skarns, Secretary.

Railroad Securities

Canadian Pacific Railway

Earnings of Canadian Pacific Railway last year were adversely affected by the decline in general business conditions throughout this country and Canada. In addition the road is hurt by relatively low grain rates.

However, for the full year 1957, Canadian Pacific reported net income equal to $3.11 an ordinary share as compared with $3.76 a share in 1956. Of great importance to the road is its other income, mainly from natural gas and oil. Another principal source of revenue are the dividends received from Consolidated Mining & Smelting of which the road owns 51.4% of the common stock. Dividend income from this source alone last year amounted to $11,357,000. This was slightly less than the $13,881,000 received in 1956. Naturally the wide fluctuations in lead and zinc prices are reflected in the earnings of this mining subsidiary. Currently, prices of these basic commodities do not appear encouraging. The mining company is diversifying its activities into the chemical field and this gives promise of more stable earning power.

Canadian Pacific has had rapidly growing income from oil production and related transactions. Beginning in 1956 these earnings were transferred from the land surplus account to the income account. Revenues from this source in 1956 amounted to $9,268,000. The road also has been buying back commitments of mineral rights on its 11.3 million acres and now has 6.4 million open for development. Recently, to become more active in this field, the carrier has formed Canadian Pacific Oil & Gas Company. Officials of the company state that geological studies of land holdings in Alberta are very encouraging.

Other interests include a steamship fleet which comprises some 35 vessels. Net pre-tax earnings from the steamship subsidiary in 1956 aggregated $3,843,000, but operations in the latter part of the year were reduced because of the decline in cargo rates. This railroad also is in the air line business. Canadian Pacific Air Lines operate over 30,000 miles of international routes, serving Australia, the Far East, South America and Europe. Net profits of the air line in 1956 amounted to $525,000 and dividends to the road amounted to $459,000. The air line plans to add additional routes to its system and this gives it long-term growth prospects. It is believed the company's hotel operations are profitable, and the continued increase in population and industrialization of the country enhance the road's long-term prospects.

Business activity in Canada is at a low ebb and no immediate improvement is seen at the present time. Inventory adjustments were reflected in lower carloadings with most commodities showing declines. Residential building also was down and grain traffic was hurt by lower export activity.

The road is seeking to improve its operating efficiency by the acquisition of diesel locomotives and in the installation of modern signaling devices. By the end of the year, it is anticipated that approximately 83% of its traffic will be hauled by diesels. Capital outlays have averaged about $87 million a year for the past 10 years. Present budgets call for the expenditure of about $1.5 billion over the next 15 years. Last year the road spent about $167 million in improvements and this was reflected in a drop in working capital of about $74 million. However, about $100 million is generated from internal sources. Canadian Pacific charges its expense accounts with depreciation of roadway and excludes amortization tax deferrals from current income. This understates income as compared with the accounting procedure used by the railroads in the United States.

Fulton Reid Group Offers Barton Stock

An underwriting syndicate headed by Fulton Reid & Co., Inc., Cleveland, Ohio, is offering an issue of $1,000,000 6½% secured notes due Oct. 1, 1962 of Barton Distilling Co. at 100% plus accrued interest from Oct. 1, 1957.

The notes are offered with warrants attached entitling the bearers to purchase for each $1,000 principal amount of notes a warehouse receipt for five barrels of Kentucky bourbon whiskey produced during December, 1957, at a cash price of $1.50 per original proof gallon (approximately $390 for five barrels). The warrants will be exercisable from Jan. 2, 1961 to and including March 1, 1961 and will be detachable from the secured notes.

It is intended that approximately $600,000 of the net proceeds from the sale of the notes will be used for the repayment of the short-term bank loans and the remainder will be available for financing inventories of aging whiskey.

Barton Distilling Co. is one of the largest privately owned distilling companies in the United States. In 1956 it was the largest producer of Kentucky whiskey. The present company was incorporated in Delaware on June 20, 1944. Its modern distilling plant, built in 1946, and its 18 warehouse buildings are at Bardstown, Ky. Executive offices at located at 134 North LaSalle St., Chicago 2, Ill.

Empire Planning Co.

BROOKLYN, N. Y.—The Empire Planning Company has been formed with offices at 2846 West 27th Street to engage in a securities business. Nathan Klein is a principal.

New Fairman Branch

PHOENIX, Ariz. — Fairman & Co. has opened a branch office at 840 North Central Avenue under the management of Francis V. Nixon.

Mullaney Wells Branch

FT. WAYNE, Ind. — Mullaney, Wells & Company has opened a branch office in the Central Building under the direction of Homer B. Summers, Jr.

Sills Opens Branch

TAMPA, Fla.—Sills and Company has opened a branch office in the Tampa Street Building under the direction of Robert Siska.

Now Universal Shares

LOS ANGELES, Calif. — The investment business of Joseph A. Galambos, 9420 Airport Boulevard, is now being conducted under the name of Universal Shares, Inc.

Two With J. C. Roberts

(Special to The Financial Chronicle)

SPRINGFIELD, Mass. — Frank H. Sozaczka and Stanley S. Wolkowicz have been added to the staff of Jay C. Roberts & Co., 18 Vernon Street.

Two With J. F. Lynam

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — James B. Biondo and Ben B. Goodwin are now affiliated with J. F. Lynam & Co., Inc., 111 South Meramec Avenue.

With United Secs.

(Special to The Financial Chronicle)

GREENSBORO, N. C. — Ronald E. Ledwell is with United Securities Co., Southeastern Building.

Joins Morrison Staff

(Special to The Financial Chronicle)

NEWTON, N. C. — Monroe M. Redden, Jr., is now with Morrison & Co., Northwestern Bank Bldg.

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The State of Trade and Industry

that some steel buyers are taking another look at their policy of inventory cutbacks.

The recent heavy snows and cold wave had some steel users hanging on the ropes. They had let their inventories sink to the danger point and when the big storm hit, they were in trouble. The mills came to the rescue by pulling steel out of ice-locked river barges and rushing it to customers.

The auto industry is still sitting on its hands, according to "The Iron Age." Reports from Detroit say that steel orders from the automakers will be less this month than in January and in some cases even below February.

One steel salesman summed up the auto situation this way: "Even if we get some big tonnage orders, we still will not have enough for a very good operating month."

Some of the large auto companies are ordering only enough steel for two to three weeks at a time. Every few weeks they come back with another small order to take care of the next period. Most steel offices close to the auto industry believe business will continue at about the same low level for some time.

"The Iron Age" says the appliance industry is a bit more optimistic about 1958 business prospects than recent layoffs might indicate. Major appliance makers actually expect to gross about as much in 1958 as they did in 1957. A few manufacturers look for a gain of as much as 4% on several appliance lines.

In the automotive industry new passenger car sales during the Feb. 11-20 period slipped 6.5% on a daily rate basis, compared to the first 10 days of the month, "Ward's Automotive Reports" stated on Friday last.

Heavy snowfalls and below zero temperatures in many parts of the country further hampered mid-month car selling.

However, "Ward's" declared that preliminary sales returns for the last third of February point to an upturn, maybe to the level realized early in the month.

"Ward's" estimated United States February car production would total about 393,000 units, the lowest output for the month in six years. Auto makers had instituted major cutbacks during February to reduce new car stocks in the field.

Scheduled at plants the past week were 93,025 cars and 18,415 trucks compared to 89,977 and 17,483 the week before and 140,362 cars and 21,743 trucks produced in the corresponding week a year ago, "Ward's" reported.

American Motors completed a five-day program last week prior to a one-week shutdown which began on Monday. Studebaker-Packard did not build cars the past week, nor did De Soto, according to "Ward's."

Elsewhere, three-day operations were observed by Chrysler Division in Detroit and at Chevrolet's Atlanta, Ga., Janesville, Wis. and Oakland, Calif., plants. Mercury plants at Los Angeles, Wayne, Mich. and St. Louis were inactive all week. Pontiac, Buick and some Ford division plants had shortened schedules. Labor difficulties continued to disrupt Chrysler Corp.'s Plymouth and Dodge main activities in Detroit.

Instalment debt dropped by $368,000,000 in January, a sharper decline than in January, 1957, the Federal Reserve Board reported.

The January, 1957, decrease amounted to $259,000,000 while the cut in the like month of 1956 was $109,000,000.

On a seasonally adjusted basis, however, outstanding instalment credit rose $83,000,000 in January. The rise for the final quarter of 1957 averaged $155,000,000 a month, on a seasonally-adjusted basis, and about $200,000,000 a month for the first three quarters of the year. Seasonally adjusted extensions of instalment credit in January amounted to $3,504,000,000 and repayments to $3,421,000,000.

The cut in instalment credit outstanding put the total as of the end of January at $33,700,000,000, the Board noted. This was about $2,200,000,000 ahead of the year-earlier total.

The January instalment credit drop was centered mostly in auto paper, the report disclosed.

Non-instalment credit dropped $442,000,000 in January, with $496,000,000 decrease in charge accounts being slightly offset by gains in single-payment loans and service credit.

Total consumer credit at the end of January stood at nearly $44,000,000,000, a gain of some $2,800,000,000 over the like 1957 period, but down $810,000,000 during the month.

Construction contracts in the United States in January fell 10% to $2,066,059,000 from January, 1957, the sharpest year-to-year decline in more than 12 months with nearly every major kind of construction affected, F. W. Dodge Corp. reported.

For the first time since last June, the dollar volume of all housing contracts fell below the level of a year-earlier, halting a small, but sustained, upturn in housing awards.

One of the deepest declines among large categories of building in January was the 53% drop to $107,000,000 in industrial facilities. George Cline Smith, economist and Vice-President of the construction news and marketing specialists, said it was the most pronounced monthly decline in several years in this group. For all of 1957, manufacturing building construction contracts fell 9% below 1956 to $2,168,070,000.

Steel Mills Set This Week to Operate at 52.6% Of Ingot Capacity

Steel producers are revising estimates of their 1958 output down to 95,000,000 tons, "Steel" magazine reported on Monday last. In December, they were talking in terms of 111,000,000 tons. First quarter output will be around 19,000,000 tons, the metalworking weekly declared.

Second quarter business will be better because of seasonal improvements and a slowdown in inventory reduction. Third quarter business will probably dip below the second quarter level but surpass that of the first quarter. As for the fourth quarter, production is expected to be easily the year's best.

The inch-up in steel production predicted last week by "Steel" began to materialize last week. Furnaces were operated at 53.5% of capacity, 1 point above the previous week's rate. Output was 1,444,000 net tons of steel for ingots and castings against 2,456,000 tons a year ago.

The publication's price composites remain unchanged with finished steel at $145.42 a net ton and prime grade of scrap at $37.17 a gross ton.

Steelmakers are not out of the woods yet, "Steel" cautioned. It said March will be a month of low operations. Any improvement this month will be slight because of the battle between the upturn of seasonal influences and continued softness in demand.

Production cutbacks are stretching out automakers' steel inventories to 22-26 days in some cases, although the aim is still to keep them at a 12 to 15 day level.

General Motors Corp. moved its February orders for sheets back to March and will probably limit March buying to the canceled February tonnage. Instead of placing monthly orders, General Motors is buying for two-week periods, a practice which makes scheduling difficult for producers.

Major oil firms indicate they will be buying in May and June for third quarter delivery. For the year as a whole, the outlook is none too bright. The oil industry estimates well drilling this year will be 15% below what it was last year. Sales to drilling firms are currently down about 70% because of excessive tubing and casing inventories.

Inquiries for future delivery of stainless have picked up noticeably, a Pittsburgh producer reports. Plates are moving in substantial volume to makers of industrial equipment and the atomic energy industries. Automakers' orders for strip are spotty.

The publication reported that the future of the atomic energy market is bright, but short term prospects remain gloomy. Slack demand and poor profits plague the industry, "Steel" noted.

The American Iron and Steel Institute announced that the operating rate of steel companies will average *88.3 of steel capacity for the week beginning March 3, 1958, equivalent to 1,419,000 tons of ingot and steel for castings (based on average weekly production for 1947-1949) as compared with an actual rate of *91.8% of capacity, and 1,475,000 tons a week ago.

Output for the week beginning March 3, 1958 is equal to about 52.6% of the utilization of the Jan. 1, 1958 annual capacity of 140,742,570 net tons compared with actual production of 54.6% the week before.

For the like week a month ago the rate was *90.7% and production 1,457,000 tons. A year ago, the actual weekly production was placed at 2,411,000 tons, or *150.1%.

***Index of production is based on average weekly production for 1947-1949.**

Electric Output Declined Further the Past Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, March 1, 1958, was estimated at 11,803,000,000 kwh., according to the Edison Electric Institute.

For the week ended March 1, 1958, output decreased 535,000,000 kwh. under that of the previous week, but increased 12,000,000 kwh. or 0.1% above that of the comparable 1957 week and by 604,000,000 kwh. above that of the week ended March 3, 1956.

Car Loadings Declined 7.7% Under Preceding Week and 21.4% Below a Year Ago

Loadings of revenue freight for the week ended Feb. 22, 1958, were 40,848 cars or 7.7% below the preceding week, the Association of American Railroad reports. The reduction in loadings was probably due in part at least to the blizzard and storm conditions which seriously hampered industrial, mining and railroad operations in the entire eastern part of the country.

Loadings for the week ended Feb. 22, 1958, which included a Saturday Washington's Birthday holiday, totaled 492,389 cars, a decrease of 134,241 cars, or 21.4% below the corresponding 1957 week, when the holiday fell on Friday, and a decrease of 194,629 cars, or 28.3% below the corresponding week in 1956, when the holiday fell on Wednesday.

Automotive Output Registered Modest Increase in Latest Week

Automotive production for the week ended Feb. 28, 1958, according to "Ward's Automotive Reports," turned slightly upward.

Heavy snowfalls and below zero temperatures in many parts of the country further hampered mid-month car selling, "Ward's" added.

Last week's car output totaled 93,025 units and compared with 89,977 (revised) in the previous week. The past week's production total of cars and trucks amounted to 111,440 units, or an increase of 3,980 units above that of the previous week's output, states "Ward's."

Last week's car output advanced above that of the previous week by 3,048 cars, while truck output climbed by 932 vehicles during the week. In the corresponding week last year 140,362 cars and 21,743 trucks were assembled.

Last week the agency reported there were 18,415 trucks made in the United States. This compared with 17,483 in the previous week and 21,743 a year ago.

Canadian output last week was placed at 6,680 cars and 1,185

trucks. In the previous week Dominion plants built 6,220 cars and 1,240 trucks and for the comparable 1957 week 9,029 cars and 1,682 trucks.

Lumber Shipments Fell 3.8% Below Output in Week Ended Feb. 22, 1958

Lumber shipments of 481 reporting mills in the week ended Feb. 22, 1958, were 3.8% below production, according to the National Lumber Trade Barometer. In the same period new orders were 10.8% below production. Unfilled orders amounted to 29% of stocks. Production was 1.8% below; shipments 3.6% below and new orders were 7.9% below the previous week and 15.6% below the like week in 1957.

Business Failures Higher in Latest Week and Considerably Above Year Ago

Commercial and industrial failures rose moderately to 331 in the week ended Feb. 27 from 317 in the preceding week, Dun & Bradstreet, Inc. reports. This increase lifted casualties considerably above the 284 in the similar week of last year and the 293 in 1956. Failures exceeded by 30% the pre-war total of 254 occurring in the comparable week of 1939.

All of the week's upturn was concentrated in casualties involving liabilities of $5,000 or more which climbed to 299 from 270 a week ago and 247 last year. A decline among small failures under $5,000, brought their total down to 32 from 47 in the previous week and 37 in 1957. Liabilities in excess of $100,000 were incurred by 32 of the failing businesses as against 30 in the preceding week.

In all industry and trade groups except wholesaling and construction, casualties were higher. Manufacturing failures rose to 67 from 51, retailing to 176 from 170 and commercial service to 23 from 18. In contrast, the total for wholesalers fell to 27 from 38 and among construction contractors dipped to 38 from 40. More businesses failed than a year ago in all lines save construction. The most noticeable upswing from 1957 appeared in manufacturing.

Four of the nine major geographic regions accounted for all of the week's rise. In fact, the Middle Atlantic States were principally responsible, reporting 116 casualties as compared with 84 in the preceding week. The East North Central total increased to 49 from 41 and failures in the West North Central and East South Central States edged up slightly. In the other five regions, declines prevailed in the holiday shortened week; casualties in the South Atlantic States fell to 28 from 44 and in the Pacific States to 67 from 74. Failures exceeded their 1957 levels in all regions except the Mountain States.

Wholesale Food Price Index Scores New High for 1958

The Dun & Bradstreet wholesale food price index edged up again last week to another new high for 1958, touching the highest level since March 1, 1955. The index rose 0.2% on Feb. 25 to $6.60 from $6.59 a week earlier. It exceeded the $6.11 of the comparable date last year by 8.0%.

Commodities quoted higher during the week were hams, lard, eggs, potatoes and steers. Lower in price were flour, wheat, corn, rye, oats, barley, sugar, cottonseed oil and hogs.

The index represents the sum total of the price per pound of 31 raw foodstuffs and meats in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Hits 1958 High On Feb. 19 Last

Price increases on most grains, coffee, sugar and some livestock boosted the general commodity price level to the highest level so far this year on Feb. 19, when the Dun & Bradstreet daily wholesale commodity price index rose to 280.97. On Feb. 24 the index stood at 280.40 compared with 280.17 a week earlier and 291.02 on the comparable date last year.

Reports of possible action on a bill to freeze farm price supports at their 1957 levels for 1958 crops, cold weather in the Midwest and a slight rise in export business, helped raise grain futures prices last week. Domestic trading in grains was close to that of the prior week. The most noticeable increase in prices occurred in wheat futures. Prices on rye, oats and soybeans advanced moderately over those of a week earlier.

Although heavy snows in many areas reduced over-all trading, flour prices climbed somewhat during the week. Commercial sales of flour for the season through Feb. 21 totaled 40,200,000 bushels compared with 31,700,000 for the same period last season. There was an increase in sales of wheat under the 1957-58 International Wheat Agreement to Japan, Venezuela and Denmark during the week. Flour receipts at New York railroad terminals on Friday amounted to 15,643 sacks including 1,518 for export and 14,125 for domestic use.

There was a moderate rise in the buying of rice, reducing inventories somewhat. Prices were sustained close to those of the previous week. Low crop estimates resulted in an increase in cocoa futures prices, but trading was sluggish.

Although coffee transactions showed little change from the prior week, futures prices advanced slightly. Inventories of green coffee in the United States on Dec. 31 totaled 2,959,000 bags, up 5% from the 2,806,000 bags held on Dec. 31, 1956. Purchases of sugar expanded in Chicago and the Pacific Coast with prices steady.

Wholesalers in Chicago reported a slight rise in the buying of hogs, but prices continued at previous week levels. Hog receipts equalled those of a week earlier, but were moderately under the similar 1957 period. Cattle receipts fell noticeably from the prior week in slack trading. There was a slight rise in prices on steers. Lamb prices slipped as purchases lagged.

A slight increase in cotton futures prices was attributed to the approval by the House Appropriation Committee of a bill to increase the acreage reserve portion of the Soil Bank. The New York Cotton Exchange estimated that cotton consumption for the first twenty-six weeks of the current season amounted to 4,169,000 bales compared with 4,581,000 bales in the first twenty-seven weeks of the 1957 season. Cotton exports in the week ended on Feb. 25 totaled about 113,000 bales compared with 165,000 a week earlier and 117,000 a year ago. For the current season through last Tuesday, exports amounted to about 3,281,000 bales, as against 4,189,000 in the corresponding period last year.

Trade Volume Improved Noticeably in Past Week But Held Under 1957 Level

Following the blizzard that occurred in many areas in the preceding week, consumer buying rose noticeably the past week, but volume remained below that of a year ago. Washington's Birthday sales promotions encouraged purchases of men's and women's apparel and some household goods. Spot checks indicate that sales of new passenger cars improved from a week earlier, but were again below those of the similar week last year.

The total dollar volume of retail trade in the period ended on Wednesday of last week was 5 to 1% under that of a year ago, spot estimates made by Dun & Bradstreet, Inc., reveal. Regional estimates varied from the comparable 1957 levels by the following percentages: Pacific Coast States —2 to +2%; West South Central and Mountain —4 to 0%; Middle Atlantic and West North Central —5 to —1%; New England, East North Central and East South Central—6 to —2% and South Atlantic States —7 to —3%.

Attracted by numerous reduced-price sales promotions, consumers stepped up their buying of women's Winter cloth coats and suits. Interest in Spring dresses expanded moderately but the call for Spring fashion accessories and sportswear was sluggish. Increased buying of men's furnishings and hats helped boost over-all volume in men's apparel substantially over that of the prior week. Sales, however, were down from a year ago.

Retailers reported a rise in the call for draperies, floor coverings and slip covers during the week, but volume slipped below a year ago. Purchases of linens and electric blankets exceeded those of both the prior week and the similar 1957 period. There was an appreciable gain from a week earlier in sales of gas ranges, refrigerators and some lines of furniture, but moderate year-to-year declines occurred.

Housewives boosted their purchases of Lenten specialties last week. Principal gains were noted in canned fish, baked goods and macaroni. Volume in fresh meat, poultry and dairy products advanced moderately from that of the prior week.

Sales of major appliances and television sets rose most noticeably in New York City and Milwaukee the past week. Contrary to the national trend, volume in men's apparel climbed considerably over that of a year ago in Atlanta.

A noticeable rise occurred in orders for many lines of home furnishings last week, but volume continued moderately under that of a year ago. Bookings at the New England Hardware-Housewares Show exceeded expectations. Interest centering primarily on garden implements, barbecue equipment, dinnerware and kitchen utensils. Some expansion took place in wholesale volume of furniture, floor coverings and draperies but notwithstanding this, moderate year-to-year declines prevailed.

A slight rise in re-orders for women's fur-trimmed winter coats and suits occurred, which helped to sustain trading in spring dresses and suits at the preceding week's level. Although orders for summer dresses improved during the week, they were down moderately from last year. Retailers increased their buying of men's lightweight suits, sportswear and slacks and interest in children's summer clothing was close to that of a week earlier.

Over-all textile trading was sluggish again the past week, but some slight improvement in purchases of man-made fibers, acetates and synthetics occurred. The buying of sheetings rose appreciably, but total sales of cotton gray goods continued to lag. Another moderate decline was the order in trading in woolens, worsteds and carpet wool. New England dyers and finishers reported slight dips in incoming orders.

Wholesale food buying expanded last week, with the most noticeable gains in canned goods, poultry and fresh meat. Increased buying of rice reduced wholesale inventories and slight declines in purchases of sugar, flour and coffee were registered.

Department stores sales on a country-wide basis as taken from the Federal Reserve Board's index for the week ended Feb. 22, 1958, declined 18% below the like period last year. In the preceding week Feb. 15, 1958, a decrease of 6% was reported. For the four weeks ended Feb. 22, 1958 a decrease of 9% was reported. For the period Jan. 1, 1958 to Feb. 22, 1958 a decrease of *4% was recorded below that of 1957.

Retail trade sales volume in New York City last week spurted 5 to 10% above the volume of the like period in 1957 due mainly to a price war on small appliances formerly under the "fair trade" regulations. Trade during the week was also stimulated by purchasers who were unable to shop as a consequence of snow and low temperatures, trade observers reported.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period ended Feb. 22, 1958 decreased 32% below that of the like period last year. In the preceding week, Feb. 15, 1958 a decrease of 1% was reported. For the four weeks ended Feb. 22, 1958, a decrease of 6% was registered. For the period Jan. 1, 1958 to Feb. 22, 1958 a decline of *2% was registered below that of the corresponding period in 1957.

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*Comparison period begins with Dec. 30-Jan. 4 week in 1958 and with Dec. 31-Jan. 5 week in 1957.

Olin Mathieson 5½% Debentures Offered

Dillon, Read & Co. Inc. and Eastman Dillon, Union Securities & Co. head an investment banking group which is offering today (March 6) $40,000,000 of Olin Mathieson Chemical Corp. 5½% convertible subordinate debentures due March 1, 1983 at 100%.

The debentures are convertible into common stock at $50 per share on or before March 1, 1973 and at $55 thereafter.

The net proceeds from the sale of the debentures will be used by the corporation to redeem $17,682,600 principal amount of series A and series B subordinate debentures and $20,871,100 par value of convertible preferred stock, representing all of such debentures and preferred stock outstanding. The aggregate redemption price of these securities amounts to $39,812,005, excluding accrued interest and dividends.

A sinking fund beginning in 1969 is designed to retire 70% of the debentures before maturity. The debentures will be redeemed for the sinking fund at 100% and the redeemable at the option of the corporation at any time at prices ranging from 105½% through March 1, 1961 downward to 100% after March 1, 1982.

Olin Mathieson Chemical Corp. is a large producer of chemicals, arms and ammunition, explosives, plant foods, drugs and pharmaceuticals, cellophane, paper, lumber products and metals. Upon the completion of its present aluminum expansion program, the corporation will become a major integrated producer and fabricator of aluminum and aluminum products. The corporation is also actively engaged in the development of high energy and nuclear fuels.

Continued from page 14

By Growth Obsessed

periods when dollar values were actually falling. From past experience, I doubt it.

An old criticism of trustees is that we buy bonds because we think too much of preserving principal for the remainderman. Apparently this criticism must now give way to the charge that we do not think enough of the remainderman because we do not invest with sufficient emphasis on ultimate appreciation. Listening to this criticism, I am sure, is that widow with small children, asking for current, not future, income. How much growth should be the target when we cannot predict with any certainty the exact date of the termination of a trust any more than we can predict what the purchasing power of the dollar will be at any given time? Appreciation of principal commensurate with a rise in the index of living costs does not necessarily mean a corresponding increase in income. I have actually heard complaints, not because of losses, but because substantial appreciation already present in a trust was not substantially greater. Are trustees to embark upon a competitive race for growth in speculative ventures? The judgments of a long line of cases, the history of investment legislation, and the regulations of the Federal Reserve Board with respect to advertising the results of common trust funds strongly suggest that we should not.

III

What Is the Moral Obligation?

But we do not dispose of our problem simply by noting the absence of a legal obligation in terms of purchasing power. There remains the question as to what moral obligation we may have, within the limits of the means available and the legal framework which governs us, to do what we can. The answer lies partly in the background I have already sketched, partly in our views as to the seriousness of the threat that faces us, and partly in the limitations within which we must work.

As to the threat, it is hardly necessary in a limited discussion by one who is not a technical economist, to attempt analysis of the various kinds and causes of inflation, whether "cost - push," "demand-pull," and so on. For our purposes this afternoon, what we mean by inflation is a significant rise in general prices, or more specifically in the cost of living, in a given period of time. In limiting our definition in this manner, we might remember Alfred Whitehead's advice to natural philosophers, quoted in a recent book by Charles Curtis,[2] to "seek simplicity and distrust it." Nor need we attempt to arbitrate the current arguments among professional economists. Certain facts and certain questions, however, we cannot ignore.

For one thing, we cannot overlook the fact that disagreement does exist, both as to whether, and to what extent, we may have continued inflation, and also as to the probable effects of such inflation as we may have. Many may have followed the debate in recent issues of the "Harvard Business Review" between Neil Jacoby, Dean of the Graduate School of Business Administration at the University of California in Los Angeles, representing the more orthodox school of thought which holds that even a slow or "creeping" inflation is harmful, and Sumner Slichter of Harvard, representing another and more tolerant view, especially toward moderate inflation, with others coming in from time to time to join in the discussion. Among the others was Dean G. L. Bach of the Graduate School of Industrial Administration at Carnegie Institute of Technology, who points out that economic history is decidedly mixed concerning the claims of both schools of thought.

For another thing, we might remember that for the first time since 1750, we have so far escaped the pronounced deflation that has heretofore followed inflations generated by great wars. We might remember, too, that the ultimate reckoning after World War I did not come for 10 years after the end of the war. There is some reason for suspecting, then, that we may now be entering the first real test in peacetime, if we can call this peacetime, that has come to us since the innovations of the New Deal and the end of World War II. What about the effect of increasing productivity, and the argument that the present distribution of age groups in our population presages a sharp increase in the labor force in the early 1960's, a change which could reduce the inflationary effect of the "cost-push" in wages?

One question we might ask has perhaps as much to do with logic or psychology as with economics. If we assume that we have conquered deflation, taking comfort from the built-in stabilizers our economists talk so much about, stabilizers, incidentally, which some of these same economists bitterly criticized when first proposed; if we can rely upon increased government responsibility toward economic affairs, why, it may be asked, in view of this great victory over deflation, should we assume that we cannot be equally effective at restraining inflation? If the answer takes the defeatest attitude that this cannot be done because the price of full employment and the defeat of deflation is a constantly creeping inflation which governments, for political reasons, will not be willing to restrain until it becomes a galloping inflation, then is there not all the more reason not to expose ourselves recklessly to the risk of an ultimate "bust?"

Fortunately, for the purposes of this particular discussion, we can sidestep a final answer to these questions and these conflicting views of our economists, and at the same time pass a caveat to those who already know for sure exactly what is going to happen to us, by recalling Disraeli's comment that "what we anticipate seldom occurs, what we least expect generally happens."

The Means Available

Leaving the future, then, to determine whether the Jacobys, the Slichters, or the Disraelis are to be right, we come to the practical means available for combating this specter of inflation. For trustees, stocks are about the only convenient means ready to hand. I have been among those doing battle in recent years for wider acceptance of common stocks as an addition to our arsenal of investment weapons, and I naturally have some views about them. There have been considerable periods when the relative trends of stock prices and the cost of living were quite different from the record of the past 15 years. There are other and better reasons for buying stocks than either the fact or the fear of inflation, for there is little convincing proof that rising stock prices are necessarily and solely a function of the changing value of money.

The one thought of my own I would inject into the discussion has to do with the very prevalent assumption that we need worry not at all about such temporary trivia as recessions, readjustments, or whatever we choose to call them, because of the underlying tidal wave of growth that is sweeping us irresistibly forward. One of the arguments strongly advanced in support of this assumption is projected population increase. In the days of Malthus, before we had mastered the processes of production, population increase was deemed a menace. Today, having produced prodigiously, we turn our concern to distribution and consumption, and look hopefully to bumper crops of babies to keep us booming. Yet already in backward areas of the earth, the rate of population increase is causing worry, and some one has wisely said that increasing the number of paupers will not enlarge our markets.

May I suggest that there is little historical justification for a complacent belief that any company, any industry, any nation, or civilization will continue to grow indefinitely and without serious interruption. Examples are easy to find, in business and elsewhere. Our own record shows important periods of instability and irregularity, in Gross National Product, corporate profits, and particularly in stock prices. It is easy to forget that stock prices were longer than most parts of our economy in recovering to former levels after the 1929 crash. If our schools gave more attention to such obsolete subjects as history and grammar, and less to finger painting and avoidance of frustration, any schoolboy could name you a dozen nations that have flourished and then faded. Eminent historians have written books on the subject.

In our own time, despite the protestations of Sir Winston Churchill, we have witnessed substantial liquidation of the once mighty British Empire. Lately, we ourselves have had reason to be concerned over what we have regarded as our own position of leadership among the Western Powers. Only a few week ago, the "London Economist" was saying that "Few nations have seen so many of their basic assumptions shattered so swiftly as the Americans have in the weeks since Mr. Khrushchev propelled his first Sputnik into space." It has been our good fortune so far never to have encountered a crisis we could not surmount. This is not the first time I have quoted Adlai Stevenson's reminder in his Godkin lectures at Harvard a few years ago that "so far we have never known the tragedy, frustration, and sometimes defeat, which are ingrained in the memories of all other peoples." We hope, we must hope, that this will always be so; but have we any right to assume simply because we are Americans, and therefore destiny's darlings, that it will always be so?

Please do not misunderstand me. I do not say these things because of any Cassandra complex, or because I have any small view of the future of this country; I am just as much interested in growth and prosperity as any one else. Moreover, no perseptive person today can fail to be increasingly impressed by the promise of the technological age in which we are living, as well as somewhat concerned over the far reaching changes it may portend. But we will not bring this promise to pass if our attitude is to dismiss as "silly baubles" what a member of the President's Scientific Advisory Committee[3] has described as "superlative scientific" instruments representing the beginnings of a major advance in man's understanding of his environment and in his opportunities for growth. I am suggesting only that today there may be more reason than before for joining in a little prayer that Arthur Guiterman addressed to Providence some years ago through the columns of "The New Yorker"[4]:

> Providence, which looks after children, drunkards, and fools,
> With silent miracles and other esoteria,
> Continue to suspend the ordinary rules,
> And take care of the United States of America.

But this is digressing, and we need to say a word about the legal framework within which we work.

The Rules That Govern

Here, certain fundamental facts must be recognized. The first is that wherever a set of rules has been established, whatever we may think of those rules, so long as they are in force and are enforceable, they must be observed. In trusteeship we do have a set of rules, varying as to detail in different jurisdictions, but in fundamental agreement as to objectives and the general boundaries which govern us. I need not elaborate them. You know the cases and the statutes; the command to preserve rather than create; the repeated warnings to reduce risks, not to take them; the admonitions to "eschew the exuberance of the speculator" and "the optimism of the promoter." I know there have been arguments in recent years for contractual arrangements under living trusts which would give a trustee practically the same status and powers as an individual owner of property, something, incidentally, that may not be equally easy in all judisdictions. I question, however, whether we are ready to reduce our concept of a trust to little more than a means of transferring legal title to property which belongs beneficially to some one else. I question whether even in Massachusetts, that most liberal state, the courts are ready to reverse the view that a trustee does not enjoy that "illimitable" potentiality which an unrestrained individual possesses respecting his own property."[5]

The next thing to remember about these rules is that they were not dreamed up arbitrarily by courts and legislatures for the special annoyance of trustees. For the most part they are the result of actual experience, and represent efforts to guide trustees away from a repetition of past misfortunes. Consider for a moment their evolution since 1830, the year of the Harvard College case. It is easy to forget how few corporate securities were then available. We were still predominantly an agricultural economy; only about 10% of our people lived in cities; what is now the great city of Chicago was then little more than a trading post. We had no railroads, no electric utilities, no telephones, industries which today provide the bulk of the corporate obligations available to trustees. A New York Stock Exchange list in 1827 showed 8 bonds, 12 bank stocks, and about 30 insurance company stocks. Under conditions then prevailing, it seems only natural that a court should have stated a rule of trust investment in general rather than in specific terms. But note the change by 1869, the year of the New York decision in King v. Talbot.[6] We were turning rapidly from an agricultural toward an industrial economy. Railroads were stretching across the country, indulging in some financial high jinks as they stretched. We had suffered the panics of 1837 and 1857; we had fought a Civil War and seen the fading of the boom that follow the war. The New York Stock Exchange had become a playground for speculators like Jim Fisk, Jay Gould, and Daniel Drew. Under such circumstances, is it too surprising that a New York court should have taken a more conservative view of trust investments than the Massachusetts court nearly 40 years earlier? As we come forward through the remaining years of the 19th and into the present century, remembering our recurring crises, our fluctuating corporate fortunes, the financial growing pains that accompanied our expansion as a nation, is it too surprising that in state after state steps should have been taken to restrict and protect the investment of trust funds?

But justifiable as rules may be in their origins, they can and do become obsolete. When they become obsolete, they must be changed. Right here is where many critics of the trust fraternity fail to give credit where it is due. Who is it that works to bring about the needed change? With all due recognition and gratitude to those lawyers, judges, and legislators who have given their sympathy and cooperation, it is generally the trustees themselves, chiefly the corporate trustees, through their associations and special committees, who have instituted and brought about the needed changes, especially in our investment laws.

To the credit of our courts, it should be said that on the whole trustees and with beneficiaries. trustees and wtih beneficiaries. Of course there have been some unfortunate decisions, at times like trustees, are only human, and some reversible errors, for judges, many of them are without investment experience. It is understandable, too, that the courts would be slower to change than trustees, for the law in general tends to lag behind the economy. By and large, however, our courts have recognized that trustees cannot be completely insulated from the economy. They have not overlooked the word "probable" in the expression "probable income and probable safety." They have judged us not alone on results, but primarily on the principles and motives of our actions, and the diligence we have employed in carrying them out. To do otherwise would be to rate the luck of the speculator above the discretion of the prudent man.

One respect, however, in which our law still lags, perhaps less in some jurisdictions than in others, has to do with what I call the doctrine of the separability of investments. Under the circumstances and the broadened responsibilities we face today, any principle of accounting which concentrates on one transaction to the exclusion of all others can be described only as an iniquitous anachronism. I know the theory behind this doctrine, that it discourages speculation in one investment to make up a loss in another; and I am asking no immunity from examination or accountability. Under present-day circumstances, however, any doctrine which does not look at a whole interrelated performance or program is outmoded, unjust, and a needless handicap to constructive action.

On the other hand, our courts, like our trustees, should not be led down dangerous paths by this Enchantress known as Growth. Many of you, especially those from California, are familiar with a recent decision in that state which surcharged a trustee not only for capital gains tax incurred in the sale of stocks at a profit, but attempted to include as part of the measure of damages any probable future appreciation in the stocks disposed of from date of sale to termination of the trust. Happily, this portion of the lower court decision was overthrown on appeal, but adoption of this line of thinking would fly in the face of a long line of cases and open a

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2 "A Commonplace Book," Charles P. Curtis, Simon and Schuster, 1957.

3 See "Earth Satellites and Foreign Policy," Lloyd V. Berkner in "Foreign Affairs," January, 1958.

4 Later reprinted, along with other verse, in the Volume "Gaily the Troubadour," E. P. Dutton.

5 Dumaine v. Dumaine, 30 Mass. 214, 220, 16 N. E. 2nd 625, 629 (1938).

6 King v. Talbot, 40 N. Y. 76, (1869).

veritable Pandora's box of problems.

IV

Conclusion

Having sketched some background, having posed some present problems and some questions about them, how do we tie these several lines of thought into some sort of conclusion? First of all, I think we can conclude that the concept of a trust essentially as a protective device still stands. I think we can conclude that growth is often capricious, and can hold both welcome and unwelcome surprises. I think we can recognize that it may be premature to build a new theory of investment and set a new measure of performance on the record of too short and too unusual a period of time. At the same time, I think we must ask whether there is any reason why trustees should not consider, and should not be permitted to take, reasonable measures to meet the same economic threats that come to other prudent investors. As a corollary question, is there any reason why trustees should be asked to attempt a difficult, perhaps an improbable achievement, and then, alone among investors, be subject for the slightest failure to the penalties of needless litigation and attempts at legal second guessing? In return for the heavier responsibilities and more difficult jobs that trustees are gladly undertaking, is it too much to ask that the law which governs us should fully recognize these increased responsibilities and deal with them in a just and enlightened manner?

If we conclude, then, as I think we must, that our duty as prudent trustees, within the limits of our powers and the means available, and still judging our performance on the motives and principles of our action, is to do what we can to meet whatever economic probabilties we encounter, how shall we go about the job? My answer is shockingly elementary. It is simply by preserving our perspective and our sense of balance. Several years ago, in one of his notable addresses our friend Louis Headley pointed to balance as one of the foundations of a trustee's philosophy. "In law," he reminded us, "it is the symbol of justice, and in business the essence of sound judgment." Applied to the securities we use, it obviously does not mean a precise division at the halfway mark between stocks and bonds, or a precise distribution of the various types of securities for each and every trust. It does mean a willingness to weigh the merits of particular securities for particular purposes. It does mean a recognition of the relative rights of life tenant and remainderman, and a determination between them in the light of the obvious or declared purposes of the trust. Quite frankly, balance in investment affairs cannot hope to match the brilliant successes of the fortunate speculator. On the other hand, it will certainly not exclude, but in fact may make more sure, a reasonable share in the wholesome growth that comes with national prosperity to those companies that have established themselves in the confidence of prudent investors. It will moderate acquisitive desire before it becomes greed; it will soften the blow when adversity strikes, and reduce the probability of its striking.

The principle of balance permeates our whole economy. It is imbalance between important interrelated elements of the economy that causes trouble. At the present time, some of us are wondering if in recent years we have not been building up imbalance between creditor claims and ownership claims, between debt and national resources, a type of imbalance that has often signaled trouble in the past. We can take this sense of balance far beyond the investment field. We can ask it of judicial decisions; we can apply it to our appraisal of economic or political affairs, and we need have no apologies about it. In practically all human affairs it makes for order and for harmony. To quote Headley again, "it distinguishes the reliable leader from the fanatic."

Some critics may argue that this is an attitude of undue caution, that we should be able to judge swiftly and shift boldly from one type of security to another. Those critics have forgotten Elliott Bell's remark that "if wrong predictions were an indictable offense, the jails would be full of economists." I do not mean that we should be blind to shifting currents in the economy or dispense with efforts to weigh relative values. There were some benighted souls, among whom I count myself, who could see virtue in a definite contract to pay a definite sum of money, at a definite time in the future, with reasonable rental for the use of that money in the meantime, especially with that rental comparing favorably with stock yields even before a sudden action of the Federal Reserve Board last November lifted a lagging bond market back to life. I do mean that we must recognize human frailties in prediction, that we must determine the relative rights of our respective beneficiaries, and that we want, so far as possible and appropriate in particular cases, a balanced rather than a one-sided hedge against the future.

It seems to be the fashion these days to speak in terms of challenges, and then with unbounded optimism about our ability to meet them. The challenges are real enough, but to the more ebullient spirits among you, my comments may seem lacking in sufficient optimism — more like the croakings of a somewhat older generation. I readily confess to the handicap of a certain amount of recollection and a certain amount of experience. But just because it is a bit late for me to contemplate the future, or even the present, with the completely unspoiled vision of youth, it certainly does not follow that I am any the less interested in continuing to reform our laws, improve our performance, and preserve our trusts. Indeed, in some jurisdictions, we must not only hope but work for further flexibility and wider latitude, if we are to do the job we want to do. What these remarks are trying to lead to is some hard-headed, realistic judgments on our passing scene. What I am suggesting, before we embark upon any exuberant orbit into uncharted space, is at least a little thought to the possibility of a safe return to earth.

Form Bodner Corp.

The Bodner Corporation has been formed with offices at 106 East 19th Street, New York City, to engage in a securities business. Officers are Jacob Bodner, President and Treasurer; Anna Bodner, Vice-President, and Abraham Wilk, Secretary. Mr. Bodner formerly did business as an individual dealer.

Hooker & Fay Add

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Larry K. Hatlett has been added to the staff of Hooker & Fay, 221 Montgomery Street, members of the New York and Pacific Coast Stock Exchanges.

Daniel Weston Adds

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.— Marcy Leondar has been added to the staff of Daniel D. Weston & Co., Inc., 9235 Wilshire Boulevard, members of the Pacific Coast Stock Exchange.

Continued from page 13

Needed Labor-Management Laws

was, oh that wasn't his money, that was UAW money.

Anti-Monopoly Law

Fifth, anti-trust and anti-monopoly laws have been enacted to protect the public from the abuses that come from the concentration of economic power. The public is entitled to the protection from the concentration of economic power regardless of who makes up that concentration. Therefore, legal restraint should be imposed against the concentration of union power by groups of unions when that power becomes a threat to the welfare and security of our country. What right has one group of citizens to combine and drive somebody else out of business and, at the same time, it is unlawful for other groups to do likewise?

Law and Order

Sixth, the responsibilities for maintaining law and order and for the prosecution for assaults, bombings, and like offenses should remain the responsibility of local and state governments. The national government at Washington should not undertake to provide police protection for every community in the United States. Citizens in some of our states and localities need to take a look at their local government.

Last fall the McClellan Committee spent many days taking the testimony of the situation in Tennessee. There we received stories of beatings, shootings, overturning of trucks, the bombing of warehouses, the destruction of property generally, the blocking of highways, and all manner of offenses. In too many cases the local officials failed to do their duty.

When we were investigating the operative engineers in Philadelphia, we received the sworn testimony of a Mr. Ed McCarty. He told how he was unmercifully beaten in an elevator as he left a union meeting. An attempt was made to put his eyes out. One of the blows that he received has resulted in cancer. It may mean his death. When that case was taken before a local magistrate he refused to do anything and said, "Well that is just a union brawl and we do not go into that."

There are two situations where perhaps the Federal Government should step in, and I am inclined to believe that consideration should be given to legislation in those fields. First, in the case of the transportation of hoodlums across state lines for the purpose of committing violence in labor union conflicts. Secondly, I believe that the Federal Government will have to step in with some laws dealing with violence and destruction of property on Federally financed projects. This must be done to protect the Federal taxpayers. It is necessary if we are going to hold down the costs of our public building programs such as the highway program.

Fixing Responsibility

Seventh, unions should be required to adopt a form of organization that fixes responsibility on the union for their acts. Unions should be held responsible for the acts of their members and officers when they are acting for the union just as employees and officers of business create a liability on that particular business.

But there is another reason why unions should be required to incorporate or adopt some similar type of organization. The individual members would then have some rights which are defined by law and are a matter of public record. They could go into court and protect those rights just as a stockholder in a business corporation can go into court. It would put an end to this shameful practice of union czars dominating local unions by placing them in trusteeship or under some form of supervision.

Right to Work

And eighth, union membership should be voluntary and not compulsory. This goes to the very heart of all of the problems involved. No American citizen should be required to belong to any organization in order to secure or to hold his job. No American citizen should be required to refrain from joining any lawful organization he chooses in order to secure or hold his job. The right to work is a basic individual right. Our courts, including our Supreme Court, have held it so. Compulsion and compulsory membership in any organization is repugnant to our concept of liberty in this country.

When Dave Beck was before the McClellan Committee, I said to him, "Suppose that your members believe these charges against you and that you have misappropriated their funds—can those members withdraw from the union and stop paying dues without losing their jobs? He didn't want to answer. I had to keep after him for 15 minutes. I finally got the answer from him. He very reluctantly admitted that they could not. In other words, the members of the Teamsters Union are captives. They are pawns. Even though they lose confidence in their officers, disagree with the course that the union is taking, and even though they feel that their money is being stolen, they cannot protest by withdrawing from the union without losing their jobs. That is neither just nor fair. It is not American.

Cites Gompers

The great Samuel Gompers, the father of modern American unionism, urged upon the workers of America, "devotion to the fundamentals of human liberty — the principles of voluntarism." He went on to warn, "No lasting gain has ever come from compulsion. If we seek to force, we tear apart that which, united, is invincible." More recently Guy L. Brown, grand chief of the Brotherhood of Locomotive Engineers, said: "We still think that labor in the long run has a good enough product that you won't have to force men to join."

Compulsory union membership invites corruption and abuse of power on the part of union officers. Voluntary union membership makes for better unions and for honest and faithful trusteeship on the part of their officers. Whenever we have "union shop" contracts or other compulsory membership contracts, the employees cannot withdraw from the union without losing their jobs even though they know and believe that their officers are corrupt and that their union is following a course with which they totally disagree. The right to join or not to join and the right to resign from an organization are not only basic freedoms but they are the way by which the members can effectively voice their protest to improper actions on the part of their officers. Voluntarism is the American way.

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

Aeronca Manufacturing Corp.
Feb. 10 (letter of notification) 5,000 shares of common stock (par $1). **Price**—$6 per share. **Proceeds**—To go to selling stockholder. **Office**—Germantown Road, Middletown, Ohio. **Underwriter**—Greene & Ladd, Middletown, Ohio.

Air-Shields Inc.
Feb. 19 (letter of notification) 4,650 shares of common stock (par $1). **Price**—$21.50 per share. **Proceeds**—To selling stockholder. **Office**—330 Jacksonville Rd., Hatboro, Pa. **Underwriter** — W. H. Newbold's Son & Co., Philadelphia, Pa.

★ **American-Carribean Oil Co. (N. Y.)**
Feb. 28 filed 500,000 shares of common stock (par 20¢). Price—To be supplied by amendment. **Proceeds** — To discharge current liabilities and to drill ten wells. **Underwriters**—To be named by amendment.

American Life & Casualty Insurance Co.
Dec. 3 filed 101,667 shares of common stock (par $1) to be offered for subscription by common stockholders at the rate of one new share for each two shares held; unsubscribed shares to be offered to public. **Price**—$10 per share. **Proceeds**—For capital and surplus accounts. **Office**—Fargo, N. D. **Underwriter**—None.

American Mutual Investment Co., Inc.
Dec. 17 filed 490,000 shares of capital stock. **Price**—$10.20 per share. **Proceeds**—For investment in first trust notes, second trust notes and construction loans. Company may develop shopping centers and build or purchase office buildings. **Office** — 900 Woodward Bldg., Washington, D. C. **Underwriter** — None. Sheldon Magazine, 1201 Highland Drive, Silver Spring, Md., is President.

American Provident Investors Corp.
Feb. 15, 1957, filed 50,000,000 shares of common stock (par one cent). **Price** — $2 per share. **Proceeds** — For working capital and general corporate purposes. **Office**—Dallas, Tex. **Underwriter**—Peoples Securities Co., J. D. Grey, of New Orleans, John S. Tanner, of Dallas, and C. L. Edmonds, of Houston, three of the 22 directors, are Chairman, Vice-Chairman and President, respectively.

American Telephone & Telegraph Co.
Dec. 31 filed $718,313,000 of 4¼% convertible debentures due March 12, 1973 (convertible into common stock, beginning May 12, 1958, at a price of $142, representing $100 debenture and $42 cash) being offered for subscription by stockholders of record Jan. 24, 1958 at rate of $100 principal amount of debentures for each nine shares held; rights to expire on March 12, 1958. **Price**—100% of principal amount. **Proceeds** — For advances to subsidiary and associated companies; for purchase of stock offered for subscription by such companies; for extensions, additions and improvements to company's own plant and for general corporate purposes. **Underwriter**—None. Statement effective Jan. 17.

Anderson Electric Corp.
Dec. 23 (letter of notification) 14,700 shares of class B common stock (par $1). **Price**—$12 per share. **Proceeds**—To go to selling stockholders. **Office** — 700 N. 44th Street, Birmingham, Ala. **Underwriters** — Cruttenden, Podesta & Co., Chicago, Ill.; and Odess, Martin & Herzberg, Inc., Birmingham, Ala.

• **Andes Copper Mining Co.**
Feb. 6 (letter of notification) 6,277 shares of class B capital stock being offered to minority stockholders at rate of one share of class B stock for each six shares of capital stock (par $14) held as of Feb. 28, 1958; rights to expire on March 18. **Price**—At par ($25 per share). **Proceeds**—To pay outstanding obligations to Anaconda Co., the parent, for funds advanced. **Underwriter** — None.

Anita Cobre U. S. A., Inc., Phoenix, Ariz.
Sept. 30 filed 85,000 shares of common stock. **Price**—At par ($3.75 per share). **Proceeds**—For investment in subsidiary and working capital. **Underwriter**—Selected Securities, Inc., Phoenix, Ariz.

• **Atlas Sewing Centers, Inc. (3/7)**
Jan. 6 filed $1,000,000 6½% convertible subordinated debentures, due 1973. **Price**—100% and accrued interest. **Proceeds**—To increase inventories, expansion, and reduce bank debt. **Underwriter**—Van Alstyne, Noel & Co., New York.

★ **Bankers Fidelity Life Insurance Co.**
Feb. 28 filed 258,740 shares of common stock (par $1), of which 125,000 shares are to be offered publicly and 133,740 shares to employees pursuant to stock purchase options. **Price**—To public, $6 per share. **Proceeds**—For expansion and other corporate purposes. **Office** — Atlanta, Ga. **Underwriter**—None.

Bankers Management Corp., Houston, Texas (3/11)
Feb. 10 filed 400,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—To reduce outstanding indebtedness and for working capital. **Underwriter**—McDonald, Holman & Co., Inc., New York.

★ **Banner Fibreboard Co.**
Feb. 25 (letter of notification) 15,000 shares of common stock to be offered to stockholders. **Price** — At par ($5 per share). **Proceeds** — For inventory, equipment and working capital. **Address** — P. O. Box 390, Wellsburg, W. Va. **Underwriter**—None.

★ **Bishop Oil Co., San Francisco, Calif. (3/21)**
Feb. 27 filed 112,565 shares of common stock (par $2) to be offered for subscription by common stockholders of record March 20, 1958, on the basis of one new share for each five shares held; rights to expire on April 3. **Price**—to be supplied by amendment. **Proceeds**—for reduction of bank loans, expansion and general corporate purposes. **Underwriter**—Hooker & Fay, San Francisco, Calif.

Blacksmith Shop Pastries Inc., Rockport, Mass.
Sept. 17 (letter of notification) $100,000 of 6½% debentures dated Sept. 16, 1957 and due Sept. 15, 1972 and 40,000 shares of capital stock (par $1) to be offered in units of one $50 debenture and 20 shares of capital stock. **Price**—$90 per unit. **Proceeds**—To retire mortgage notes and for working capital. **Underwriter**—Mann & Gould, Salem, Mass.

Bridgeport & Port Jefferson Steamboat Co.
Jan. 30 (letter of notification) 30,000 shares of common stock (par $5) to be offered for subscription by common stockholders of record Dec. 31, 1957 at the rate of three new shares for each two shares held. **Price**—$10 per share. **Proceeds**—To construct new vessel. **Offices**—Port Jefferson, N. Y.; and Bridgeport, Conn. **Underwriter**—None.

Butler Brothers, Chicago, Ill. (3/4)
Feb. 12 filed 50,000 shares of its common stock (par $15) to be offered to certain Ben Franklin franchise holders. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriter**—None.

Camoose Uranium Mines of America, Inc.
Jan. 9 filed 3,000,000 shares of common stock (1 cent par), all owned by Camoose Mines Ltd., which is in liquidation and has equivalent amount of stock outstanding (1 cent par). When registration statement becomes effective, Camoose Mines will issue as a liquidating dividend, on a share-for-share basis, the 3,000,000 Canadian Uranium Mines shares it owns. **Office**—New York City. **Underwriter**—None.

★ **Canadian Fund, Inc., (N. Y.)**
Feb. 28 filed (by amendment) 200,000 additional shares of capital stock. **Price**—At market. **Proceeds**—For investment.

Carolina Power & Light Co. (3/18)
Feb. 17 filed $20,000,000 first mortgage bonds due 1988. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Equitable Securities Corp. **Bids**—Tentatively scheduled to be received up to 11 a.m. (EST) on March 18.

Central Mortgage & Investment Corp.
Sept. 12 filed $5,000,000 of 20-year mortgage bonds and 500,000 shares of common stock (par five cents) to be offered in units of $100 of bonds and 10 shares of stock. **Price**—$100.50 per unit. **Proceeds**—For purchase of first mortgages or to make first mortgage loans and for construction business. **Office**—Miami Beach, Fla. **Underwriter**—Aetna Securities Corp., New York. **Offering**—Date indefinite.

• **Chenango & Unadilla Telephone Co.**
Jan. 29 filed 20,833 shares of common stock (par $20) being offered for subscription by common stockholders of record Jan. 30, 1958 on basis of one new share for each 5.28 shares held; rights to expire on March 10. **Price**—$24 per share. **Proceeds**—To repay short-term bank loans and for additions and improvements. **Underwriters**—W. E. Hutton & Co., New York; and Laird, Bissell & Meeds, Wilmington, Del.

Chess Uranium Corp.
May 14 (letter of notification) 600,000 shares of common stock (par $1—Canadian). **Price**—50 cents per share (U. S. funds). **Proceeds**—For exploration costs, etc. **Office**—5616 Park Ave., Montreal, Canada. **Underwriter**—Jean R. Veditz Co., Inc., 160 Broadway, New York.

Cincinnati Gas & Electric Co. (3/12)
Feb. 20 filed 130,000 shares of cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Proceeds**—For construction and improvements, to repay bank loans, and for other corporate purposes. **Underwriters**—Morgan Stanley & Co., W. E. Hutton & Co., and Blyth & Co., Inc., all of New York.

Cincinnati Gas & Electric Co. (3/12)
Feb. 20 filed 450,923 shares of common stock (par $8.50) to be offered for subscription by common stockholders of record March 11, 1958, on the basis of one new share for each 16 shares held; rights to expire on March 26. **Price**—To be supplied by amendment. **Proceeds**—For construction and improvements, to repay bank loans, and for other corporate purposes. **Underwriters** — Morgan Stanley & Co., W. E. Hutton & Co., and Blyth & Co., Inc., all of New York.

Columbia Gas System, Inc. (3/6)
Feb. 7 filed $30,000,000 of 25-year debentures due 1983. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan Stanley & Co.; Merrill Lynch, Pierce, Fenner & Smith and White, Weld & Co. (jointly). **Bids**—Tentatively expected up to 11 a.m. (EST) on March 6.

Commerce Oil Refining Corp.
Dec. 16 filed $25,000,000 of first mortgage bonds due Sept. 1, 1968, $20,000,00 of subordinated debentures due Oct. 1, 1968 and 3,000,000 shares of common stock to be offered in units as follows: $1,000 of bonds and 48 shares of stock and $100 of debentures and nine shares of stock. **Price**—To be supplied by amendment. **Proceeds** — To construct refinery. **Underwriter**—Lehman Brothers, New York. **Offering**—Indefinite.

★ **Commonwealth Telephone Co., Dallas, Pa. (3/20)**
Feb. 28 filed 71,200 shares of common stock (par $10) to be offered for subscription by common stockholders of record March 7, 1958 at the rate of one new share for each five shares held. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans. **Underwriter**—Eastman Dillon, Union Securities & Co., New York.

★ **Consolidated Edison Co. of N. Y., Inc. (4/22)**
March 3 filed $50,000,000 of first and refunding mortgage bonds, series O, due April 1, 1988. **Proceeds**—To retire short-term bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp. **Bids**—To be received on April 22.

Continental Mining & Oil Corp.
Dec. 9 (letter of notification) 250,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For mining expenses. **Office**—1500 Massachusetts Avenue, N. W., Washington, D. C. **Underwriter**—E. L. Wolfe Associates, 1511 K St., N.W., Washington, D. C.

Counselors Research Fund, Inc., St. Louis, Mo.
Feb. 5 filed 100,000 shares of capital stock, (par one cent). **Price**—At market. **Proceeds**—For investment. **Underwriter** — Counselors Research Sales Corp., St. Louis. Robert H. Green is President.

Cubacor Explorers, Ltd.
Oct. 28 (letter of notification) 600,000 shares of common stock (par $1-Canadian). **Price**—50 cents per share-U. S. funds. **Proceeds** — For exploration and drilling costs. **Office** — Suite 607, 320 Bay St., Toronto, Ont., Canada. **Underwriter**—Stratford Securities Co., Inc., 135 Broadway, New York. **Offering**—Postponed indefinitely.

Daybreak Uranium, Inc., Opportunity, Wash.
Jan. 29 filed 1,156,774 shares of common stock (par 10 cents), of which 630,000 shares are to be offered for account of company and 526,774 shares for selling stockholders. **Price**—At market. **Proceeds**—For exploration and drilling costs and other corporate purposes. **Underwriter**—Herrin Co., Seattle, Wash.

Diapulse Manufacturing Corp. of America
Jan. 29 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For general corporate purposes. **Office**—276 Fifth Ave., New York, N. Y. **Underwriter**—None.

Digitronics Corp.
Feb. 12 (letter of notification) 140,000 shares of class B capital stock (par 10 cents). **Price** — $1.50 per share. **Proceeds**—For general corporate purposes. **Office**—Albertson Avenue, Albertson, Long Island, N. Y. **Underwriter**—Cortlandt Investing Corp., 135 Broadway, New York 6, N. Y.

Disc, Inc., Washington, D. C.
Oct. 10 filed 400,000 shares of class A common stock (par $1). **Price**—$2.50 per share. **Proceeds**—For investment. **Business**—Purchase and development of real property, and acquisition of stock of business enterprises. **Underwriter**—None. Irving Lichtman is President and Board Chairman.

Dixon Chemical & Research, Inc.
Dec. 24 filed 165,625 shares of common stock (par $1) to be offered for subscription by common stockholders at the rate of one new share for each four shares held. **Price**—To be supplied by amendment. **Proceeds**—For expansion and general corporate purposes. **Office**—Clifton, N. J. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Offering**—Temporarily postponed.

★ **Dresser Industries, Inc.**
Feb. 28 filed 128,347 shares of common stock (par 50c) to be offered in exchange for outstanding common stock of the Elgen Corp. on the basis of one share of Dresser Industries common for 3.4 shares of Elgen's common. No exchanges will be made unless the exchange offer is accepted by the holders of at least 80% of the outstanding Elgen common, and Dresser will not be obligated to consummate any exchanges unless the offer is accepted by the holders of at least 95% of the outstanding Elgen common. **Underwriter**—None.

★ Eagle-Picher Co.
Feb. 26 (letter of notification) 9,677 shares of common treasury stock (par $10) to be offered pursuant to employee stock purchase plan for 1958 for all eligible salaried employees. **Price** — 95% of closing price on New York Stock Exchange on April 10, 1958. **Proceeds**—To reimburse the issuer for purchase of stock on the Exchange. **Office** — The American Building, Cincinnati, Ohio. **Underwriter**—None.

★ Ellerbe Company Investment Fund, Saint Paul, Minn.
March 3 filed 240,000 shares of participating stock to be offered only to Ellerbe Company and to employees of that company. **Price**—Initially at $10 per share. **Proceeds**—For investment. **Underwriter**—None.

Ethodont Laboratories, Berkeley, Calif.
Feb. 20 filed 300,000 shares of common stock. **Price**—At par ($5 per share). **Proceeds**—To cover operating expense during the development period of the corporation. **Underwriter**—None.

Ex-Cell-O Corp., Detroit, Mich.
Nov. 25 filed 88,000 shares of common stock (par $3) to be offered in exchange for common stock of Bryant Chucking Grinder Co. of Springfield, Va., at rate of four-tenths of an Ex-Cell-O share for each full Bryant share. Offer will become effective upon acceptance by holders of not less than 209,000 shares (95%) of all common stock of Bryant outstanding. **Underwriter**—None.

Expanded Shale Products, Inc., Denver, Colo.
Jan. 29 filed 60,000 shares of common stock (par $1) and $180,000 of 6% callable unsubordinated unsecured debenture notes due 1960-1964 to be offered in units of $600 of notes and 200 shares of stock. **Price**—$1,000 per unit. **Proceeds**—For construction of plant, working capital and other corporate purposes. **Underwriter**—Minor, Mee & Co., Albuquerque, N. M.

Famous Virginia Foods Corp.
Jan. 30 (letter of notification) 16,900 shares of common stock (par $5) and 390 common stock purchase warrants to be offered in units of 50 shares of stock and one warrant. **Price**—$500 per unit. **Proceeds**—For equipment and working capital. **Office**—922 Jefferson St., Lynchburg, Va. **Underwriter** — Whitney & Co., Inc., Washington, D. C.

Famous Virginia Foods Corp.
Nov. 6 (letter of notification) 5,000 shares of common stock. **Price**—$6.67 per share. **Proceeds**—To selling stockholder. **Office**—922 Jefferson St., Lynchburg, Va **Underwriter**—Whitney & Co., Inc., Washington, D. C.

Farrar Drilling Co.
Feb. 3 (letter of notification) 150,000 shares of common stock (par five cents). **Price**—$2 per share. **Proceeds**—For oil and gas drilling expenses. **Office**—316 Rogers Bldg., Mt. Vernon, Ill. **Underwriter**—Paul A. Davis & Co., Miami, Fla.

Fidelity Capital Fund, Inc., Boston, Mass.
Feb. 6 filed 20,000 shares of capital stock, of which 10,000 shares were previously sold privately and the balance is to be offered to a limited number of investors. **Price**—$10 per share. **Proceeds**—For investment. **Underwriter**—The Crosby Corp., Boston, Mass.

Fidelity Trend Fund, Inc., Boston, Mass.
Feb. 6 filed 20,000 shares of capital stock, of which 10,000 shares were previously sold privately and the balance is to be offered to a limited number of investors. **Price**—$10 per share. **Proceeds**—For investment. **Underwriter**—the Crosby Corp., Boston, Mass.

First International Fire Insurance Co.
Aug. 26 (letter of notification) 100,000 shares of common stock (par $1). **Price** — $3 per share. **Proceeds** — For capital and surplus and for first year's deficit. **Office**—3395 S. Bannock St., Englewood, Colo. **Underwriter** — American Underwriters, Inc., Englewood, Colo.

First Leaseback Corp., Washington, D. C.
Nov. 27 filed 500,000 shares of class A common stock (par five cents). **Price** — $5 per share. **Proceeds** — To purchase properties. **Underwriter** — Whitmore, Bruce & Co., Washington, D. C.

★ Florida Power & Light Co. (3/24)
Feb. 27 filed $20,000,000 of first mortgage bonds, series due 1988. **Proceeds**—To provide additional electric and gas facilities and for other corporate purposes. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Smith and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Bids**—To be received up to 11:30 a.m. (EST) on March 24.

Fluorspar Corp. of America
Dec. 26 filed 470,000 shares of common stock. **Price**—$3 per share. **Proceeds**—For exploration work and working capital. **Office**—Portland, Ore. **Underwriter**—To be named by amendment. Sol Goldberg is President.

Forest Laboratories, Inc.
Aug. 28 filed 200,000 shares of capital stock (par 10 cents). **Price**—$2.50 per share. **Proceeds**—For sales promotion of company's products, working capital, additional inventory and accounts receivable, for research and development and for other general corporate purposes. **Office**—Brooklyn, N. Y. **Underwriters**—Alfred L Powell Co., New York; and H Carroll & Co., Denver Colo. **Offering**—Not expected for 4 to 6 weeks.

Freeman Electric Construction Co., Inc.
Nov. 27 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—$3 per share. **Proceeds**—To reduce accounts payable, etc., and for working capital and general corporate purposes. **Office** — New York **Underwriter**—Harris Securities Corp., New York City

General Aniline & Film Corp., New York
Jan. 14 filed 426,988 shares of common A stock (no par) and 1,537,500 shares of common B stock (par $1). **Proceeds**—To the Attorney General of the United States **Underwriter**—To be determined by competitive bidding Probable bidders: Blyth & Co., Inc., and The First Boston Corp. (jointly); Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly). **Bids** — Had been scheduled to be received up to 3:45 p.m. (EDT) on May 13 at Room 654, 101 Indiana Ave., N. W., Washington 25, D. C., but bidding has been postponed.

General Credit, Inc., Washington, D. C.
Aug. 17, 1956 filed $2,000,000 of 6% subordinated sinking fund debentures, due Sept. 1, 1971, with detachable warrants to purchase 160,000 shares of participating preference stock, to be offered in units of $500 of debentures and 40 warrants. **Price**—$500 per unit. **Proceeds**—For expansion and working capital. **Underwriter**—None named. Offering to be made through selected dealers Application is still pending with SEC.

General Electronics Distributors Inc.
Feb. 10 (letter of notification) 2,090 shares of common stock (par $25) to be offered to stockholders until May, 1958, then to the public. **Price**—$42 per share. **Proceeds**—For loans payable to bank, inventory and working capital. **Office**—735 Main Street, Wheeling, W. Va. **Underwriter**—None.

General Telephone Co. of California (3/12)
Feb. 11 filed $20,000,000 of first mortgage bonds, series L, due 1988. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp. **Bids**—To be received up to 8 a.m. (PST) on March 12.

Georgia Power Co. (3/20)
Feb. 21 filed $24,000,000 first mortgage bonds due March 1, 1988. **Proceeds** — To finance construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co.; Lehman Brothers; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co., and Shields & Co. (jointly); Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly). **Bids**—Scheduled to be received up to 11 a.m. (EST) on March 20 at office of Southern Services, Inc., Room 1600, 250 Park Avenue, New York 17, N. Y.

Glassheat Corp.
Feb. 12 (letter of notification) 150,000 shares of class A common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For general corporate purposes. **Office**—1 E. 35th Street, New York 16, N. Y. **Underwriter**—James Anthony Securities Corp., 37 Wall St., New York 5, N. Y.

Great Divide Oil Corp.
Oct. 11 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To pay balance on oil and gas properties, and unsecured notes and for drilling and working capital. **Office**—207 Newhouse Bldg., Salt Lake City, Utah. **Underwriter**—Birkenmayer & Co., Denver, Colo.

Guardian Insurance Corp., Baltimore, Md.
Aug. 16 filed 300,000 shares of common stock, of which 200,000 shares are to be publicly offered and the remaining 100,000 shares reserved for issuance upon exercise of warrants which are to be sold at 25 cents per warrant to organizers, incorporators, management, and/or directors. **Price**—$10 per share. **Proceeds**—For working capital and general corporate purposes. **Underwriter**—None.

Hawaiian Airlines Ltd., Honolulu, Hawaii
Feb. 18 filed $1,250,000 of convertible subordinated debentures due April 1, 1973, of which $1,000,000 principal amount will be offered for subscription by stockholders at the rate of 100 of debentures for each 35 shares held; $100,000 of debentures will be offered to employees; and $150,000 to others. **Price**—At principal amount. **Proceeds**—To be used to buy new airplanes, to repay certain

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NEW ISSUE CALENDAR

March 6 (Thursday)
Columbia Gas System, Inc. ... **Debentures**
(Bids 11 a.m. EST) $30,000,000
Virginia & Southwestern RR. ... **Bonds**
(Bids noon EST) $5,000,000

March 7 (Friday)
Atlas Sewing Centers, Inc. ... **Debentures**
(Van Alstyne, Noel & Co.) $1,000,000

March 10 (Monday)
Merrimack-Essex Electric Co. ... **Bonds**
(Bids noon EST) $20,000,000
Saxon Paper Corp. ... **Common**
(Milton D. Blauner & Co., Inc.) $450,000

March 11 (Tuesday)
Bankers Management Corp. ... **Common**
(McDonald, Holman & Co., Inc.) $400,000
Indianapolis Power & Light Co. ... **Bonds**
(Bids 11 a.m. EST) $8,000,000
Sylvania Electric Products, Inc. ... **Debentures**
(Paine, Webber, Jackson & Curtis) $40,000,000

March 12 (Wednesday)
Chicago, Rock Island & Pacific RR. ... **Bonds**
(Bids noon EST) $16,000,000
Cincinnati Gas & Electric Co. ... **Preferred**
(Morgan Stanley & Co.; W. E. Hutton & Co. and Blyth & Co., Inc.) $13,000,000
Cincinnati Gas & Electric Co. ... **Common**
(Offering to stockholders—to be underwritten by Morgan Stanley & Co.; W. E. Hutton & Co. and Blyth & Co., Inc.) $3,828,346
General Telephone Co. of California ... **Bonds**
(Bids 8 a.m. PST) $20,000,000
Mangel Stores Corp. ... **Debentures**
(Lee Higginson Corp.) $3,000,000
Mississippi River Fuel Corp. ... **Debentures**
(Eastman Dillon, Union Securities & Co.) $30,000,000

March 18 (Tuesday)
Carolina Power & Light Co. ... **Bonds**
(Bids 11 a.m. EST) $20,000,000
Tennessee Gas Transmission Co. ... **Debentures**
(Stone & Webster Securities Corp.; White, Weld & Co., Inc.; and Halsey, Stuart & Co. Inc.) $30,000,000
Tennessee Gas Transmission Co. ... **Preferred**
(Stone & Webster Securities Corp. and White, Weld & Co.) $20,000,000

March 19 (Wednesday)
Texas Eastern Transmission Corp. ... **Bonds**
Dillon, Read & Co., Inc.) $25,000,000

March 20 (Thursday)
Commonwealth Telephone Co. ... **Common**
(Offering to stockholders—to be underwritten by Eastman Dillon, Union Securities & Co.) 71,200 shares
Georgia Power Co. ... **Bonds**
(Bids 11 a.m. EST) $24,000,000

March 21 (Friday)
Bishop Oil Co. ... **Common**
(Offering to stockholders—underwritten by Hooker & Fay) 112,565 shares

March 24 (Monday)
Florida Power & Light Co. ... **Bonds**
(Bids 11:30 a.m. EST) $20,000,000
Merck & Co., Inc ... **Common**
(Goldman, Sachs & Co.) 225,000 shares

March 25 (Tuesday)
New Jersey Bell Telephone Co ... **Debentures**
(Bids to be invited) $30,000,000
Stepan Chemical Co. ... **Common**
(White, Weld & Co.) 203,000 shares

March 27 (Thursday)
Northwest Bancorporation ... **Preferred**
(The First Boston Corp. and Blyth & Co., Inc.) $10,643,000

March 31 (Monday)
Wisconsin Electric Power Co. ... **Bonds**
(Bids to be invited) $30,000,000

April 1 (Tuesday)
Idaho Power Co. ... **Bonds**
(Bids to be invited) $10,000,000

April 9 (Wednesday)
Duquesne Light Co. ... **Bonds**
(Bids to be invited) $15,000,000

April 14 (Monday)
New England Telephone & Telegraph Co. ... **Debens.**
(Bids to be invited) $45,000,000

April 15 (Tuesday)
Commonwealth Edison Co. ... **Bonds**
(Bids to be invited) $50,000,000 to $60,000,000
New England Electric System ... **Common**
(Offering to stockholders—bids to be invited) 968,549 shares

April 16 (Wednesday)
Mississippi Power & Light Co. ... **Bonds**
(Bids to be invited) $15,000,000
Sierra Pacific Power Co. ... **Common**
(Offering to stockholders) 57,362 shares

April 22 (Tuesday)
Consolidated Edison Co. of N. Y. Inc. ... **Bonds**
(Bids to be invited) $50,000,000

April 23 (Wednesday)
Sierra Pacific Power Co. ... **Bonds**
(Bids to be invited) $3,000,000

April 28 (Monday)
Puget Sound Power & Light Co. ... **Bonds**
(Bids to be invited) $30,000,000

April 29 (Tuesday)
Philadelphia Electric Co. ... **Bonds**
(Bids to be invited) $40,000,000

May 13 (Tuesday)
United Gas Improvement Co. ... **Bonds**
(Bids to be invited) $12,000,000

May 20 (Tuesday)
Illinois Power Co. ... **Bonds**
(Bids to be invited) $25,000,000

June 3 (Tuesday)
Appalachian Electric Power Co. ... **Bonds**
(Bids to be invited) $25,000,000

June 10 (Tuesday)
Virginia Electric & Power Co. ... **Bonds or Debs.**
(Bids to be invited) $25,000,000

June 11 (Wednesday)
New England Power Co. ... **Bonds**
(Bids to be invited) $10,000,000

July 1 (Tuesday)
Florida Power Corp. ... **Bonds**
(Bids to be invited) $25,000,000

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short-term bank loans, and for other corporate purposes. **Underwriter**—None.

★ Hedwer Drilling Co., Inc.
Feb. 26 (letter of notification) 1,000,000 shares of common stock (par one cent). **Price** — 20 cents per share. **Proceeds**—For expenses incidental to drilling oil wells. **Office**—Rangely, Colo. **Underwriter**—None.

★ Hercules Powder Co.
March 4 filed $5,000,000 of interests or participations in the company's employee savings plan, together with 125,000 shares of its common capital stock which may be acquired pursuant thereto. **Underwriter**—None.

★ Hoffman Electronics Corp., Los Angeles, Calif.
Feb. 24 filed $375,000 of interests in company's employee thrift plan, together with 14,974 shares of common stock which may be acquired pursuant thereto.

• Hofmann Industries, Inc., Sinking Spring, Pa.
Dec. 20 filed 227,500 shares of common stock (par 25 cents) to be offered in exchange for outstanding common shares of Van Dorn Iron Works Co. **Underwriter**—None.

Home Owners Life Insurance Co.
Nov. 1 filed 50,000 shares of class A common stock to be offered to the public at $5 per share and 116,366 shares of class B common stock to be offered to stockholders at $6 per share at the rate of two new shares for each five shares held. **Proceeds**—For working capital. **Office**—Fort Lauderdale, Fla. **Underwriter**—None.

Horlac Mines, Ltd.
Nov. 20 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—To repay loan, to purchase equipment and machinery and for working capital. **Office**—1551-A Eglinton Ave. West, Toronto 10, Ont., Canada. **Underwriter**—D'Amico & Co., Inc., Buffalo, N. Y.

Indianapolis Power & Light Co. (3/11)
Feb. 14 filed $8,000,000 of first mortgage bonds, due 1988. **Proceeds**—To repay short-term bank borowings, and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co.; White, Weld & Co. and Shields & Co. (jointly); Blyth & Co.; Kuhn, Loeb & Co.; Lehman Brothers and Goldman, Sachs & Co. and First Boston Corp. (jointly); Equitable Securities Corp. **Bids**—Expected to be received up to 11 A.M. (EST) on March 11 at Room 3250, 120 Broadway, New York, N. Y.

★ Industro Transistor Corp., (N. Y.)
Feb. 28 filed 150,000 shares of common stock (par 10 cents). **Price**—To be related to the market price. **Proceeds**—For working capital and to enlarge research and development department. **Underwriter** — S. D. Fuller & Co., New York. **Offering**—Expected early in April.

★ International Aviation Industries, Inc.
Feb. 25 (letter of notification) 50,000 shares of common stock (par $2). **Price**—$4 per share. **Proceeds**—For working capital and improvements to hangar. **Office**—Westchester County Airport, White Plains, N. Y. **Underwriter**—None.

★ Investors Group Canadian Fund, Ltd.
Feb. 26 filed (by amendment) 10,000,000 shares of common stock (par $1). **Price**—At market. **Proceeds**—For investment. **Office**—Toronto, Canada.

Janaf, Inc., Washington, D. C.
July 30 filed $10,000,000 of 5½-8% sinking fund debentures due Aug. 1, 1972 and 100,000 shares of common stock (par 20 cents) to be offered in units of a $1,000 debenture and 10 shares of stock, or a $100 debenture and one share of stock. **Price**—Par for debenture, plus $2 per share for each 10 shares of Stock. **Proceeds**—For construction of a shopping center and other capital improvements; for retirement of present preferred shares; and for working capital, etc. **Underwriter**—None.

• Kaar Engineering Corp.
Feb. 12 (letter of notification) $250,000 of 6½% convertible 15-year sinking fund debentures, due Jan. 1, 1973, to be offered for subscription by preferred stockholders at the rate of $3 of debentures for each preferred share (par $10) held. **Price**—At par (in denominations of $1,000 and $500), plus accrued interest from Jan. 1, 1958. **Office**—2995 Middlefield Road, Palo Alto, Calif. **Underwriter**—None.

Keystone Beryllium Corp.
Feb. 14 (letter of notification) 270,700 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For mining expenses. **Office**—Suite 525, University Building, Denver 2, Colo. **Underwriter**—Mountain States Securities Corp., Denver, Colo.

Lefcourt Realty Corp., New York
Jan. 29 filed 250,000 shares of common stock (par 25 cents). **Price**—To be supplied by amendment. **Proceeds**—For development of property in Florida. **Underwriter**—Frank M. Cryan Co., Inc., New York.

Lorain Telephone Co., Lorain, Ohio
Dec. 13 (letter of notification) 1,785 shares of common stock (no par) being offered for subscription by common stockholders at the rate of one new share for each 62.52 shares held as of Feb. 25, 1958; rights to expire on May 1, 1958. **Price**—$28 per share. **Proceeds**—For additions and improvements. **Office** — 203 West 9th St., Lorain, Ohio. **Underwriter**—None.

★ Los Angeles Airways, Inc.
Feb. 20 (letter of notification) 1,923 shares of common stock (par $10). **Price**—$52 per share. **Proceeds**—To go to selling stockholders. **Office**—5901 Imperial Highway, Los Angeles 45, Calif. **Underwriter**—Dean Witter & Co., Los Angeles 14, Calif.

Mangel Stores Corp. (3/12)
Feb. 18 filed $3,000,000 of convertible subordinated debentures due 1973. To be offered for public sale. **Price**—To be supplied by amendment. **Proceeds**—To be used for enlargement of existing stores, opening of new stores, and other corporate purposes. **Underwriter**—Lee Higginson Corp., New York.

★ McCormick & Co.
Feb. 24 (letter of notification) 2,000 shares non-voting common stock (no par) to be offered to certain employees. **Price**—At market. **Proceeds**—For working capital. **Office**—414 Light St., Baltimore, Md. **Underwriter**—None.

★ Merck & Co., Inc. (3/24)
March 5 filed 225,000 shares of common stock (par 16⅔ cents). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholder. **Underwriter**—Goldman, Sachs & Co., New York.

Merrimack-Essex Electric Co. (3/10)
Feb. 11 filed $20,000,000 of first mortgage bonds, series C, due 1988. **Proceeds**—Together with other funds, to redeem a like amount of 5⅝% series B bonds due 1987. **Underwriter**—To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co. and White, Weld & Co., (jointly); Halsey, Stuart & Co. Inc.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Smith, and Eastman Dillon Union Securities & Co. (jointly). **Bids**—To be received up to noon (EST) on March 10 at 441 Stuart St., Boston 16, Mass.

Mineral Basin Mining Corp.
Dec. 30 (letter of notification) 200,000 shares of common stock. **Price** — At par ($1 par value). **Proceeds** — For mining expenses. **Office** — 1710 Hoge Bldg., Seattle 4, Wash. **Underwriter**—None.

Minnesota Development Corp., Minneapolis, Minn.
Jan. 30 filed 20,000 shares of capital stock (no par). **Price**—$50 per share. **Proceeds**—For general corporate purposes. **Underwriter**—None. Walter M. Ringer, Sr., of Minneapolis, Minn., is President.

Mississippi River Fuel Corp. (3/12)
Feb. 17 filed $30,000,000 of 20-year sinking fund debentures, due 1978. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans. **Underwriter**—Eastman Dillon, Union Securities & Co., New York.

★ Morrison-Knudsen Co., Inc.
Feb. 3 (letter of notification) 9,375 shares of common stock (par $10) to be offered to employees of company and subsidiary pursuant to employees stock purchase plan. **Price**—At the market less $2 on the various dates of purchase between Feb. 12, 1958, and Dec. 10, 1958. **Proceeds**—To partially reimburse company for purchase of the stock. **Office**—319 Broadway, Boise, Idaho. **Underwriter**—None.

Motel Co. of Roanoke, Inc., Roanoke, Va.
Nov. 18 (letter of notification) 60,000 shares of common stock (par 40 cents). **Price**—$5 per share. **Proceeds**—For purchase of land, construction and working capital. **Underwriter**—Southeastern Securities Corp., New York.

Motel Corp. of Italy
Jan. 14 filed 20,000 shares of class A common stock and 10,000 shares of 7% cumulative convertible preferred, to be sold publicly at a unit price of $101, representing one share of preferred and two shares of common. **Proceeds**—To be invested in the stock of Motels Americano, an Italian organization. **Office**—Silver Springs, Maryland. **Underwriter**—None.

Multnomah Canadian Fund, Ltd., Vancouver, B. C.
Jan 31 filed 1,000,000 shares of class A common stock (par $1). **Price**—At market. **Proceeds**—For investment. **Business**—Investment company, with Spencer R. Collins of Eugene, Ore., as President.

Multnomah Kennel Club, Fairview, Ore.
Dec. 26 filed $250,000 of 10% unsecured debentures and 400,000 shares of class A non-voting common stock (par $1) to be offered in units of $250 of debentures and 400 class A shares. **Price** — $910 per unit. **Proceeds** — To repay bank loans and short-term unsecured notes. **Underwriter** — Stone, Moore & Co., Inc.; Denver, Colo. **Offering**—Expected early in February.

Municipal Investment Trust Fund, Inc. (N. Y.)
May 9 filed 5,000 units of undivided interests in Municipal Investment Trust Fund, Series A. **Price**—At market. **Proceeds**—For investment. **Sponsor**—Ira Haupt & Co., New York.

• National Aviation Corp., New York
Feb. 7 filed 174,404 shares of capital stock (par $5) being offered for subscription by stockholders of record Feb. 27, 1958 at rate of one new share for each four shares held (with an oversubscription privilege); rights to expire on March 13. **Price**—$20 per share. **Proceeds**—For investments. **Underwriter**—None.

★ National Beverages Inc.
Feb. 25 (letter of notification) 90,000 shares of common stock (par $1). **Price**—$2.50 per share. **Proceeds**—For working capital, expansion and equipment. **Office**—1030 S. 6th W., Salt Lake City, Utah. **Underwriter**—None.

Natural Gas Pipeline Co. of America
Nov. 19 filed $40,000,000 of first mortgage pipeline bonds due 1977. **Price**—To be supplied by amendment. **Proceeds** — To reduce bank loans. **Underwriters** — Dillon, Read & Co. Inc. and Halsey, Stuart & Co. Inc., both of New York. **Offering**—Temporarily postponed.

Nebraska Consolidated Mills Co.
Feb. 6 (letter of notification) 25,000 shares of common stock to be offered to stockholders at the rate of one new share for each 16 shares held. Rights will expire March 15, 1958. **Price**—At par ($10 per share). **Proceeds**—For working capital. **Office** — 1521 North 16th St., Omaha 10, Neb. **Underwriter**—None.

★ New Jersey Bell Telephone Co. (3/25)
Feb. 28 filed $30,000,000 of 35-year debentures due April 1, 1993. **Proceeds**—To redeem a like amount of 4⅞% debentures due 1993 on or about April 28. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); Morgan Stanley & Co.; The First Boston Corp. **Bids**—Tentatively expected to be received on or about March 25.

Nichols, Inc., Exeter, N. H.
Nov. 14 filed 25,000 shares of common stock (no par). **Price**—$27 per share. **Proceeds**—To repay short term bank loans and for working capital. **Business** — Sells hatching eggs and day-old chicks. **Underwriter**—None. George E. Coleman, Jr., is President.

• Nortex Associates Inc., Dallas, Texas
Feb. 17 filed $2,000,000 of participating interests in 1958 oil and gas exploration program. Interests are to be offered for public sale in $10,000 units. **Proceeds**—For exploration and development of gas and oil properties. **Underwriter**—None.

Nuclear Science & Engineering Corp.
Sept. 20 filed 100,000 shares of common stock (par 25 cents). **Price**—To be supplied by amendment. **Proceeds**—To prepay indebtedness to Norden-Ketay Corp., to purchase additional equipment and for working capital. **Underwriter**—Hayden, Stone & Co., New York. **Offering**—Temporarily postponed because of market conditions.

Oil & Mineral Operations, Inc.
Nov. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$2.50 per share. **Proceeds**—For development of oil and mineral properties. **Office**—208 Wright Bldg., Tulsa, Okla. **Underwriter**—Universal Securities Co., 201 Enterprise Bldg., Tulsa 3, Okla.

★ Parnat Business Machines Corp.
Feb. 25 (letter of notification) 60,000 shares of common stock (par $1). **Price** — $5 per share. **Proceeds** — For working capital. **Office**—1816 Boston Rd., Bronx, N. Y. **Underwriter**—Darius Inc., New York.

Peoples Security Investment Co.
Oct. 28 filed 1,000,000 preorganization subscriptions to class A voting common stock and 250,000 preorganization subscriptions to class B non-voting common stock to be offered in units of four class A shares and one class B share, the purchaser agreeing to donate each class B share to the Peoples Security Foundation for Christian Education, to be incorporated as a non-profit corporation. **Price**—$2 per share. **Proceeds** — For capital and surplus to finance a proposed insurance company to be named Peoples Security & Endowment Co. of America. **Office** — Montgomery, Ala. **Underwriter**—None. T. J. Patterson is President.

Pleasant Valley Oil & Mining Corp.
Sept. 30 (letter of notification) 2,000,000 shares of common stock. **Price**—At par (five cents per share). **Proceeds** — For geological studies, reserve for contingent liability, for machinery and equipment and other reserves. **Office** — 616 Judge Bldg., Salt Lake City, Utah. **Underwriter**—Steven Randall & Co., Inc., New York.

★ Prairie Fibreboard Ltd.
Feb. 28 filed 210,000 shares of common stock (par $1.50) to be offered for sale to residents of Canada in the Provinces of Manitoba, Saskatchewan and Alberta and to residents of the United States "only in the State of North Dakota." **Price** — $2.50 per share. **Proceeds** — For construction purpose. **Office** — Saskatoon, Saskatchewan, Canada. **Underwriter**—Allied Securities Ltd., Saskatoon, Canada.

Premier Pharmaceutical Corp., Buffalo, N. Y.
Jan. 29 filed 100,000 shares of 6% preferred stock (par $10) and 100,000 shares of common stock (par $1) to be offered in units of one share of each class of stock. **Price**—$11 per unit. **Proceeds**—To build or lease plant, for new equipment and for working capital and other corporate purposes. **Underwriter**—Girard Securities, Inc., Buffalo, N. Y.

Professional Life & Casualty Co., Champaign, Ill.
Dec. 16 filed 120,000 shares of common stock. **Price**—$15 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—None.

Public Savings Life Insurance Co.
Nov. 29 filed 113,000 shares of common stock (par 50 cents). **Price**—To be supplied by amendment. **Proceeds**—To Public Savings Insurance Co., the selling stockholder. **Office**—Charleston, S. C. **Underwriter**—None.

Reichhold Chemcials, Inc.
Oct. 10 filed 200,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For expansion program and working capital. **Underwriter**—Blyth & Co., Inc., New York. **Offering**—Postponed temporarily.

Resolute Bay Trading Co., Ltd.
Oct. 29 (letter of notification) 30,000 shares of common stock. **Price**—At par ($5 per share). **Proceeds**—For working capital, etc. **Business**—Purchase and sale of commodities. **Office**—St. John, N. B., Canada. **Underwriter**—Irving Weis & Co., New York.

Resolite Corp., Zelienople, Pa.
Dec. 6 filed 20,000 shares of common stock to be offered for subscription by stockholders of record Dec. 1, 1957 in the ratio of 3½ new shares for each 10 shares held; unsubscribed shares to be offered to public. **Price**—$10 per share. **Proceeds**—To pay $100,000 outstanding obligations and for improvement and rehabilitation of plant and facilities. **Business**—Fiberglass panels. **Underwriter**—None.

Rocky Mountain Quarter Racing Association
Oct. 31 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—To repay outstnding indebtedness. **Office** — Littleton, Colo. **Underwriter**—R. B. Ford Co., Windover Road, Memphis. Tenn.

Saxon Paper Corp., New York (3/10-14)
Jan. 31 filed 112,500 shares of common stock (par 25 cents). **Price** — $4 per share. **Proceeds** — Working capital. **Underwriter**—Milton D. Blauner & Co., Inc., New York.

Schering Corp., Bloomfield, N. J.
Sept. 19 filed 278,983 shares of 5% cumulative convertible preferred stock (par $30) and 418,475 shares of common stock (par $1) to be issued in exchange for stock of White Laboratories, Inc. (which is to be merged with Schering Corp. effective Sept. 19, 1957) on the basis of one share of preferred stock and 1½ shares of common stock for each White class A or class B common share held. **Underwriter**—None.

Scientific Industries, Inc.
Dec. 27 (letter of notification) $120,000 6% convertible sinking fund debentures, due Feb. 1, 1968, convertible, except as provided in case of redemption, into common stock (5 cent par value) at a price of $1 per share. **Price** —At par. **Proceeds** — For expansion of plant in the manufacture of laboratory and scientific instruments and to build up company's new electronics division. **Office** — 15 Park St., Springfield, Mass. **Underwriter** — Willis E. Burnside & Co., Inc., New York City.

★ **Selected American Shares, Inc.**
Feb. 27 filed (by amendment) 1,250,000 additional shares of common capital stock (par $1.25). **Price**—At market. **Proceeds**—For investment.

Sentinel Security Life Insurance Co.
Nov. 27 filed 5,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—For working capital. **Office**—Salt Lake City, Utah. **Underwriter**—None.

"Shell" Transport & Trading Co., Ltd.
Dec. 20 filed a maximum of 817,720 of New York Shares (representing a like amount of ordinary shares) being offered for subscription by holders of ordinary shares, including stock represented by New York shares of record Jan. 17, 1958, on a 1-for-10 share basis; rights to expire March 3. This represents 10% of the total offering by the company, which 10% is being offered for subscription by American residents. **Price**—5 pounds, ten shillings; $15.40 at current official exchange rate. **Proceeds** — For exploration programs. **Underwriter** — None in the United States. Statement effective Jan. 20.

Sheraton Properties, Inc., Boston, Mass.
Dec. 30 filed $990,000 of first mortgage sinking fund bonds due Dec. 1, 1973. **Price**—At par. **Proceeds**—To repay indebtedness. **Underwriter** — Sheraton Securities Corp., a subsidiary.

Simplicity Pattern Co. Inc.
Oct. 10 filed 155,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To two selling stockholders. **Underwriter**—Merrill Lynch, Pierce, Fenner & Smith, New York. **Offering** — Indefinitely postponed.

South Carolina Electric & Gas Co.
Feb. 4 filed 369,694 additional shares of common stock (par $4.50) being offered for subscription by common stockholders of record Feb. 26 on basis of one new share for each 10 shares held (with an oversubscription privilege); rights to expire on March 12. **Price**—$21.50 per share. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Kidder, Peabody & Co., New York.

Southern Electric Steel Co.
Dec. 23 (letter of notification) $300,000 of 6% second mortgage serial bonds (with common stock purchase warrants). **Price**—At par (in denominations of $1,000 each). **Proceeds**—For payment of demand notes payable and working capital. **Office**—2301 Huntsville Road, Birmingham, Ala. **Underwriter**—None.

Sovereign Resources, Inc.
Nov. 19 (letter of notification) 1,500 shares of 7% cumulative preferred stock. **Price**—At par ($100 per share). **Proceeds**—For construction, payment of promissory note and working capital. **Office**—3309 Winthrop St., Fort Worth, Tex. **Underwriter**—Reilly, Hoffman & Sweeney, Inc., New York, N. Y. **Offering**—Delayed.

★ **Spokane Mountain Uranium Co.**
Feb. 21 (letter of notification) 1,500,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds** —For expenses incidental to mining operations. **Office**—401 Radio Central Bldg., Spokane, Wash. **Underwriter**—Ronald Percy Getty, Lewiston, Idaho.

★ **Stepan Chemical Co., Chicago, Ill. (3/25)**
Feb. 27 filed 253,000 shares of common stock (par $1), of which 203,000 shares are to be offered publicly. **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriter**—White, Weld & Co., New York.

Sylvania Electric Products, Inc. (3/11)
Feb. 18 filed $20,000,000 of sinking fund debentures due 1980 and $20,000,000 of convertible subordinated debentures due 1983. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for working capital. **Underwriters** — Paine, Webber, Jackson & Curtis and Halsey, Stuart & Co. Inc., both of New York.

★ **Symington-Gould Corp., Depew, N. Y.**
Feb. 28 filed 593,939 shares of common stock and 263,973 warrants to be issued in exchange for the stock of the Wayne Pump Co. under merger agreement which provides for conversion of each share of capital stock of Wayne Pump into (1) 2¼ shares of common stock of the surviving corporation to be known as Symington Wayne Corp., and (2) an option to purchase an additional share at prices commencing at $10 per share. **Underwriter**—None.

Tax Exempt Bond Fund, Inc., Washington, D. C.
June 20 filed 40,000 shares of common stock. **Price**—$25 per share. **Proceeds** — For investment. **Underwriter**—Equitable Securities Corp., Nashville, Tenn. **Offering**—Held up pending passing of necessary legislation by Congress.

★ **Tennessee Gas Transmission Co., Houston, Texas (3/18)**
Feb. 26 filed $30,000,000 of debentures due May 1, 1978. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for construction. **Underwriters**—Stone & Webster Securities Corp., White, Weld & Co. and Halsey, Stuart & Co., Inc., all of New York.

★ **Tennessee Gas Transmission Co., Houston, Texas (3/18)**
Feb. 26 filed 200,000 shares of cumulative convertible second preferred stock (par $100). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for construction. **Underwriters**—Stone & Webster Securities Corp. and White, Weld & Co., both of New York.

★ **Texas Eastern Transmission Corp. (3/19)**
Feb. filed $25,000,000 of first mortgage pipe line bonds due 1978. **Price**—To be supplied by amendment. **Office**—Shreveport, La. **Proceeds**—To repay short-term note indebtedness and for new construction. **Underwriter**—Dillon, Read & Co. Inc., New York.

Tourist Industry Development Corp. Ltd.
Jan. 14 filed $2,250,000 7% perpetual subordinated debentures (4% fixed interest and 3% of earned), to be sold at par in denominations of $1,000 and multiples thereof. **Proceeds**—To acquire mortgages or other liens on real estate, also for loans to or invested in hotels, resorts or inland transport. **Office**—Jerusalem, Israel. **Underwriter**—None.

Trans-America Uranium Mining Corp.
Nov. 6 filed 3,000,000 shares of common stock (par one mill). **Price**—25 cents per share. **Proceeds**—For land acquisition, exploratory work, working capital, reserves, and other corporate purposes. **Underwriter**—None. Alfred E. Owens of Waterloo, Ia., is President.

Trask Manufacturing Co.
Dec. 5 (letter of notification) 15,000 shares of common stock (par $5). **Price** — $4.50 per share. **Proceeds** — For working capital and payment of current liabilities. **Address**—Wrightsboro section, 3 miles north of Wilmington, N. C. **Underwriter** — Selected Investments, Wilmington, N. C.

Ulrich Manufacturing Co.
Sept. 24 filed $600,000 of 6% sinking fund debentures and 30,000 shares of class A common stock (par $1) to be offered in units of $500 of debentures and 25 shares of stock. **Price**—To be supplied by amendment. **Proceeds**—To reduce bank loans, to repay all or part of an outstanding 5% term loan and/or provide additional working capital. **Office**—Roanoke, Ill. **Underwriter**—White & Co., St. Louis, Mo., on a best-efforts basis.

United States Sulphur Corp.
Oct. 8 filed 1,500,000 shares of common stock (par one cent). **Price**—$1 per share. **Proceeds**—For plant rental, etc.; to retire corporate notes; for core drilling; for working capital; and for other exploration and development work. **Office** — Houston, Texas. **Underwriter** — None.

United States Telemail Service, Inc.
Feb. 17 filed 375,000 shares of common stock (par $1). **Price**—$4 per share. **Proceeds**—To purchase equipment and supplies and for working capital and other corporate purposes. **Office**—Salt Lake City, Utah. **Underwriter**—Amos Treat & Co., Inc., of New York.

● **Universal-Cyclops Steel Corp.**
Feb. 10 filed 600,153 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders who are to receive said shares in exchange for their holdings of Empire Steel Corp. and Reeves Steel & Mfg. Co. common stock on the basis of 8.68 shares Universal for each Empire share and 5.51 shares Universal for each Reeves share. **Underwriter**—None.

Uranium Corp. of America, Portland, Ore.
April 30 filed 1,250,000 shares of common stock (par 10 cents). **Price**—To be supplied by amendment (expected to be $1 per share). **Proceeds**—For exploration purposes. **Underwriter**—To be named by amendment. Graham Albert Griswold of Portland, Ore., is President.

★ **Valley Farms, Inc., Denver, Colo.**
Feb. 26 filed 32,000 shares each of class A, class B and class C preferred stock (par $25), and 32,000 shares of common stock (no par) to be offered in units of one share each of class A, B and C preferred and one share of common. **Price**—$100 per unit. **Proceeds**—To repay loan on real estate and for farm operating capital. **Underwriter**—Entro Corp., Denver, Colo., on a best-efforts basis.

Washington National Development Corp.
Oct. 2 (letter of notification) 50,000 shares of common stock (par $1) of which 34,280 shares are to be offered publicly at $1.20 per share and 15,720 shares are to be offered to certain individuals under options. **Proceeds**—For general corporate purposes. **Office** — 3612 Quesada St., N. W., Washington, D. C. **Underwriter**—Wagner & Co., New York City

★ **Wellco Shoe Corp., Waynesville, N. C.**
Feb. 21 (letter of notification) 1,250 shares of class B common stock (no par) to be offered to salesmen. **Price** $40 per share. **Proceeds**—To go to selling stockholders. Underwriter—None.

West Coast Airlines, Inc., Seattle, Wash.
Feb. 12 filed $600,000 of 6% subordinated debentures, due 1970, and 150,000 shares of common stock (par $1) to be offered for subscription by common stockholders of record March 1, 1958, in units of $100 principal amount of debentures and 25 common shares, at rate of one unit for each 31 common shares held on the record date. **Price**—$125 per unit. **Proceeds**—To finance the acquisition of six new Fairchild F-27 "Friendship" aircraft on order for delivery during 1958, and related costs. **Underwriter**—None.

Western Copperada Mining Corp. (Canada)
Aug. 30 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For development and exploratory work, drilling costs and survey, and for working capital. **Office** — 1205 Phillips Square, Montreal, Canada. **Underwriter**—Jean R. Veditz Co., Inc., New York.

★ **Wisco Hardware Co.**
Feb. 21 (letter of notification) 1,500 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—For working capital. **Office** — 15 S. Brearly St., Madison, Wis. **Underwriter**—None.

★ **Wisconsin Electric Power Co., Milwaukee (3/31)**
March 3 filed $30,000,000 of first mortgage bonds, series due 1988. **Proceeds** — For corporate purposes and construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co., Eastman Dillon, Union Securities & Co. and Harriman Ripley & Co. Inc. (jointly); Merrill Lynch, Pierce, Fenner & Smith and Equitable Securities Corp. (jointly); Lehman Brothers and Salomon Bros. & Hutzler (jointly). **Bids**—Expected to be received on March 31.

Worldmark Press, Inc.
Dec. 20 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For working capital and general corporate purposes. **Office**—207 East 43rd Street, New York, N. Y. **Underwriter**—J. A. Winston & Co., Inc., New York.

Worth Fund, Inc., New York
Feb. 21 filed 400,000 shares of common stock. **Price**—$12.50 per share. **Proceeds**—For investment. **Underwriter**—Cherokee Securities Corp., 113 N. W. Broad St., Southern Pines, S. C.

Young (Donald W.) & Son, Inc.
Nov. 14 (letter of notification) $75,000 of 10-year 6% debentures due Oct. 1, 1967, with common stock warrants to purchase 7,500 shares of 10-cent par common stock at $1 per share. **Price**—$100 per unit of a $100 debenture and one warrant. **Proceeds**—To repay short term debt and for working capital. **Office**—Stockholm, N. Y. **Underwriter** — Sherry, Maloney & Co., Inc., New York.

Prospective Offerings

American Electronics, Inc.
Dec. 30 it was reported company plans to sell approximately $3,500,000 convertible debentures. **Underwriters** —To be determined by competitive bidding. Probable bidders: Van Alstyne, Noel & Co. and Crowell, Weedon & Co. (jointly). **Offering**—Expected in March.

Appalachian Electric Power Co. (6/3)
Dec. 2, it was reported that this company, a subsidiary of American Gas & Electric Co., plans to issue and sell $25,000,000 of first mortgage bonds. **Proceeds**—To repay bank loans and for construction program. **Underwriter** —To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Eastman Dillon, Union Securities & Co. (jointly); Harriman Ripley & Co. Inc. **Bids**—Tentatively expected to be received on June 3.

Associates Investment Co.
Jan. 23 it was reported company plans to issue and sell some additional debentures (amount not yet determined). **Underwriters** — Salomon Bros. & Hutzler and Lehman Brothers, both of New York. **Offering**—Expected before July 1.

Atlantic City Electric Co.
Jan. 20 it was reported company plans to issue and sell in 1958 $10,000,000 of first mortgage bonds. **Underwriter** —To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co. and Smith, Barney & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp. and Drexel & Co. (jointly); White, Weld & Co. and Shields & Co. (jointly).

Boston Edison Co.
Jan. 27 it was reported company may issue and sell in the second or third quarter of this year some additional first mortgage bonds and preferred stock. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—For bonds to be determined by company, with prospective bidders including Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Lehman Brothers and Harriman Ripley & Co. Inc. (jointly). For preferred stock, The First Boston Corp., New York.

Brooklyn Union Gas Co.
Nov. 25 it was announced that company expects to issue and sell $22,000,000 of first mortgage bonds next April or May. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Blyth & Co., Inc., and F. S. Moseley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith; Harriman Ripley & Co. Inc. and The First Boston Corp. (jointly); White, Weld & Co.

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Central Hudson Gas & Electric Corp.
Jan. 22 it was reported company plans to issue and sell in June or July 1958 $18,000,000 of first mortgage bonds. This may be done privately.

Central Illinois Light Co.
Jan. 22 it was announced stockholders will vote March 27 on increasing the authorized preferred stock (par $100) from 250,000 shares to 500,000 shares. **Underwriter**—Eastman Dillon, Union Securities & Co., New York.

Chicago District Pipeline Co.
Nov. 12 it was announced company plans to sell about $5,000,000 of first mortgage bonds sometime after the turn of the year. **Proceeds**—To repay advances made by Peoples Gas Light & Coke Co., the parent. **Underwriters**—Probably Dillon, Read & Co. Inc. and Halsey, Stuart & Co. Inc.

Chicago Rock Island & Pacific RR. (3/12)
Jan. 28 it was announced company plans to issue and sell $16,000,000 first mortgage bonds due 1983. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Eastman Dillon, Union Securities & Co. and Blyth & Co. (jointly); First Boston Corp.; Kuhn, Loeb & Co. **Bids**—To be received up to noon (CST) on March 12.

Cincinnati Gas & Electric Co.
Nov. 8 it was reported company plans in 1958 to sell about $15,000,000 of first mortgage bonds. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and W. E. Hutton & Co. (jointly); Blyth & Co. Inc. and The First Boston Corp. (jointly); Merrill Lynch, Pierce, Fenner & Smith and Lehman Bros. (jointly), Eastman Dillon, Union Securities & Co. and White, Weld & Co. (jointly).

Citizens & Southern National Bank of Savannah, Ga.
Jan. 15 it was reported Bank plans to offer to its stockholders the privilege of subscribing for 100,000 additional shares of capital stock in about 60 days. **Underwriter**—None.

Columbus & Southern Ohio Electric Co.
Dec. 9 it was reported company plans to issue and sell in 1958 about 250,000 shares of common stock. **Underwriters** — Dillon, Read & Co. Inc. and The Ohio Co. (jointly).

Commonwealth Edison Co. (4/15)
Feb. 17 it was announced company plans to issue and sell $50,000,000 to $60,000,000 of mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. **Bids**—Expected to be received on April 15. **Registration**—To be filed about the middle of March.

• Consolidated Natural Gas Co.
Feb. 25 it was announced company plans to issue and sell $45,000,000 of sinking fund debentures. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Morgan Stanley & Co. and First Boston Corp. (jointly). **Offering**—Expected in second quarter of 1958.

Delaware Power & Light Co.
Jan. 22 it was reported company plans to issue and sell $10,000,000 of first mortgage bonds due 1988. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly); Eastman Dillon, Union Securities & Co.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Smith and Kidder, Peabody & Co. (pointly). **Offering**—Expected in June.

Duquesne Light Co. (4/9)
Jan. 29 it was announced company plans to sell not exceeding $15,000,000 of first mortgage bonds due 1988. **Proceeds** — To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Glore, Forgan & Co.; Kuhn, Loeb & Co.; Eastman Dillon, Union Securities & Co., and A. C. Allyn & Co. Inc. (jointly); Drexel & Co. and Equitable Securities Corp. (jointly). **Bids**—Tentatively expected to be received on April 9.

Florida Power Corp. (7/1)
Jan. 29 it was reported corporation plans to issue and sell $25,000,000 of first mortgage bonds due 1988. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); Lehman Brothers and Blyth & Co., Inc. (jointly); Eastman Dillon, Union Securities & Co., and Harriman Ripley & Co. Inc. (jointly); The First Boston Corp. **Bids**—Expected to be received on July 1.

★ Great Atlantic & Pacific Tea Co.
Feb. 19 it was reported a secondary offering of common voting stock is expected within a month. **Underwriters**—May include: Blyth & Co., Inc.; Carl M. Loeb, Rhoades & Co.; Hemphill, Noyes & Co.; Smith, Barney & Co.; and Merrill Lynch, Pierce, Fenner & Smith.

Gulf, Mobile & Ohio RR.
Dec. 20 ICC granted company permission to issue $28,343,800 of 5% income debentures to mature Dec. 1, 2056, in exchange for the 283,438 shares of outstanding $5 preferred stock (no par) on the basis of $100 of debentures for each preferred share. Offer expires Feb. 14, 1958, but may be extended. **Underwriter**—None.

Gulf States Utilities Co.
Jan. 29 it was reported company plans to issue and sell in May $20,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Smith and White, Weld & Co. (jointly); Salomon Bros. & Hutzler and Eastman Dillon, Union Securities & Co. (jointly); Lehman Brothers; Stone & Webster Securities Corp.; Kuhn, Loeb & Co.

Gulf States Utilities Co.
Jan. 29 it was reported company plans to issue and sell 200,000 shares of common stock. **Underwriter** — To be determined by competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Smith and Lehman Brothers (jointly); Stone & Webster Securities Corp. **Bids**—Tentatively expected to be received in May.

Idaho Power Co. (4/1)
Feb. 14 company applied to the Federal Power Commission for authority to issue and sell $10,000,000 of first mortgage bonds due 1988 and $10,000,000 of sinking fund debentures due 1983. **Proceeds** — To repay bank loans. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Lazard Freres & Co. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler and Eastman Dillon, Union Securities & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith; Equitable Securities Corp. **Bids**—Expected to be received on April 1.

Illinois Power Co. (5/20)
Jan. 29 it was reported company plans to issue $25,000,000 of first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co.; White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); The First Boston Corp.; Harriman Ripley & Co. Inc. **Bids**—To be received on May 20.

Kansas Power & Light Co.
Feb. 14 it was announced company plans to issue and sell $10,000,000 of first mortgage bonds due 1988. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Harriman Ripley & Co. Inc.; White, Weld & Co.; Blyth & Co., Inc.; Equitable Securities Corp. **Registration**—Expected before Spring.

Kentucky Utilities Co.
Jan. 21 it was reported company plans to issue and sell $10,000,000 of first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lee Higginson Corp.; Equitable Securities Corp.; Eastman Dillon, Union Securities & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Kuhn, Loeb & Co. **Offering**—Expected in September or October.

Kentucky Utilities Co.
Jan. 21 it was also reported that company may offer approximately 165,000 additional shares of its common stock to its common stockholders on a 1-for-15 basis. **Underwriters**—Blyth & Co., Inc. and J. J. B. Hilliard & Son.

Litton Industries, Inc.
Dec. 14 stockholders approved the creation of an issue of 16,000 shares of $100 par preferred stock and an increase in the authorized common stock from 2,000,000 to 3,500,000 shares. **Underwriters** — Lehman Brothers and Clark, Dodge & Co. handled last equity financing which was done privately.

Louisiana Power & Light Co.
Dec. 16, it was announced company may borrow $11,500,000 from banks pending a final financing program relating to the disposition of its gas properties to Louisiana Gas Service Co., a new company.

Master Fund, Inc., Fairfield, Calif.
Jan. 27 it was announced this newly organized investment company plans to offer to bona fide residents of California 10,000 shares of capital stock (par $1). **Price**—$10 per share, less an underwriting discount of 8½%. **Proceeds**—For investment.

Missiles-Rockets-Jets & Automation Fund, Inc.
On Jan. 7 this new fund registered under the Investment Company Act of 1940. Plans to issue $15,000,000 common stock, of which $7,500,000 will be underwritten on a firm basis by Ira Haupt & Co. **Price**—$10. **Proceeds**—For investment. **Technological Advisors**—Include Dr. Theodore von Karman, Chairman of the advisory group for aeronautical research and development of NATO.

Mississippi Power & Light Co. (4/16)
Jan. 29 it was announced company plans to issue and sell $15,000,000 of first mortgage bonds due 1988. **Underwriter**—to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Equitable Securities Corp. and Shields & Co. (jointly); Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Smith, Eastman Dillon, Union Securities & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Bids** — Tentatively expected to be received on April 16.

★ New England Electric System (4/15)
March 3, it was announced that company is planning to offer 968,549 of common shares (par $1) to stockholders on a 1-for-12 basis; unsubscribed shares will be made available for subscription by employees under a 1958 employee share purchase plan. **Underwriter**—To be determined by competitive bidding. Probable bidders: Carl M. Loeb, Rhoades & Co., Ladenburg, Thalmann & Co., and Wertheim & Co. (jointly); Merrill Lynch, Pierce, Fenner, & Smith, Kidder, Peabody & Co. Inc., and White Weld & Co. (jointly); Blyth & Co. Inc., Lehman Brothers, and Bear, Stearns & Co. (jointly). **Bids**—Tentatively set for April 15. **Registration**—Expected March 14.

★ New England Power Co. (6/11)
March 3 it was announced this company, a subsidiary of New England Electric System, proposes to file $10,000,000 principal amount of first mortgage bonds, series H, due 1988. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co., Eastman Dillon, Union Securities & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Smith; Kidder Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp. and Blair & Co., Inc. (jointly). **Bids**—Tentatively scheduled to be received on June 11 at 441 Stuart St., Boston 16, Mass. **Registration**—Expected early in May.

New England Telephone & Telegraph Co. (4/14)
Feb. 19 it was announced company plans to issue and sell $45,000,000 of 35-year debentures. **Proceeds**—To redeem $35,000,000 of 4¾% debentures due 1986 and to repay advances from American Telephone & Telegraph Co. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp. **Bids**—Tentatively scheduled to be received on or about April

Northern States Power Co. (Minn.)
Jan. 13 it was reported that the company may be considering the issue and sale this Summer of about $25,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Smith, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers and Riter & Co. (jointly); Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly).

Northwest Bancorporation, Minneapolis, Minn. (3/27)
Feb. 25 it was announced company plans to offer 106,430 shares of new convertible preferred stock (par $100) to its common stockholders at the rate of one new share for each 16 common shares held. **Proceeds**—Approximately $7,000,000 to be invested in three major affiliates and the balance for working capital and other corporate purposes. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc., both of New York.

Oklahoma Gas & Electric Co.
Feb. 3 it was reported company plans to issue and sell $15,000,000 of bonds this year. **Underwriter**—To be determined by competitive bidding. Probable bidders: (1) For bonds—Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co., Merrill Lynch, Pierce, Fenner & Smith and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Eastman Dillon, Union Securities & Co. (jointly).

Pacific National Bank, San Francisco, Calif.
Feb. 12 the Bank offered 44,708 additional shares of common stock (par $20) to stockholders at the rate of one new share for four shares held as of Feb. 11; rights to expire on March 4. **Price**—$37.50 per share. **Proceeds**—To increase capital and surplus. **Underwriters** — Elworthy & Co.; Schwabacher & Co.; Davis Skaggs & Co.; Pfluger & Baerwald; and J. Barth & Co.; all of San Francisco, Calif.

Pacific Telephone & Telegraph Co.
Jan. 8 it was reported company plans $300,600,000 capital outlay program. **Proceeds**—For construction program in 1958 and 1959 ($137,000,000 in 1958). **Underwriter**—To be determined by competitive bidding. Probable bidders— Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Philadelphia Electric Co. (4/29)
Jan. 27 it was reported company plans to issue and sell in May, subject to market conditions, $40,000,000 of first mortgage bonds due 1988. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Morgan Stanley & Co. and Drexel & Co. (jointly). **Bids**—Expected to be received on April 29.

Public Service Co. of Oklahoma
Jan. 20 it was reported company plans to issue and sell in May $16,000,000 of first mortgage bonds due 1988. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.: and Shields & Co. (jointly); Blyth & Co., Inc.; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. and Eastman Dillon, Union Securities & Co. (jointly); The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Co.

Puget Sound Power & Light Co. (4/28)
Jan. 29, Frank McLaughlin, President, announced company plans to issue and sell $30,000,000 of first mortgage bonds. **Proceeds**—To redeem $20,000,000 of 6¼% series bonds due 1987 and to finance new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. and Lehman Brothers (jointly); Stone & Webster Securities Corp., The First Boston Corp. and Smith, Barney & Co. (jointly). **Bids**—Expected to be received on April 28.

Richfield Oil Corp.
Jan. 6 it was reported that company may late in January announce its financing plans, which are not yet completed. **Underwriter** — May be Merrill Lynch, Pierce, Fenner & Smith, New York.

Riddle Airlines, Inc.
Oct. 21 it was announced company plans to register with the SEC an issue of new common stock, the number of shares and the price at which they will be offered not yet determined. The authorized common stock has been

increased from 7,500,000 to 15,000,000 shares. **Proceeds**—To finance route expansion and for working capital. **Underwriter**—James H. Price & Co., Inc., Coral Gables, Fla. and New York, N. Y., handled previous public offering of 500,000 shares of common stock at $3.25 per share in July, 1956.

Royal Bank of Canada (3/19)
Feb. 26 the Bank announced it plans to offer 1,008,000 shares of capital stock to stockholders of record March 5, 1958 at the rate of one new share for each five shares held; rights will expire on June 10, 1958. **Price**—$37.50 per share (in Canadian currency). **Proceeds**—To increase capital and surplus. **Underwriter**—None. This issue will not be registered with SEC.

Sierra Pacific Power Co. (4/16)
Jan. 27 it was also reported that the company plans to offer to its common stockholders the right to subscribe for 57,362 additional shares of common stock (probably with an oversubscription privilege). **Proceeds**—For construction program. **Underwriter**—Exemption from competitive bidding to be sought. Stone & Webster Securities Corp. and Dean Witter & Co. (jointly) were only bidders for last rights offer, which was on a competitive basis.

Sierra Pacific Power Co. (4/23)
Jan. 27 it was reported company plans to issue and sell $3,000,000 of first mortgage bonds due 1988. **Proceeds**—To repay bank loans and for construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and Dean Witter & Co. (jointly). **Bids**—Tentatively scheduled to be received on April 23. **Registration — Planned for March 25.**

Southern Counties Gas Co. of California
Dec. 16 it was reported company plans to issue and sell in March, 1958, $15,000,000 of first mortgage bonds. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Smith.

Southern Nevada Power Co.
Dec. 3 it was announced company plans to raise in mid-1958 between $5,000,000 and $6,000,000 new capital, about two-thirds of which will be through bond financing and the balance through common stock financing. **Underwriter**—For stock, may be Hornblower & Weeks, William R. Staats & Co. and The First California Co. (jointly). For bonds, to be determined by competitive bidding. Only bidders in 1956 for $4,000,000 bonds were Halsey, Stuart & Co. Inc.; Hornblower & Weeks and William R. Staats & Co. (jointly).

★ Tel-A-Sign Inc., Chicago, Ill.
March 3, it was announced the company will file on or about March 10, 1958 a proposal to issue 180,000 shares of common stock (par 20 cents). **Price**—To be determined at time of offering. **Proceeds**—For working capital and other corporate purposes. **Underwriters**—Floyd D. Cerf Jr. Co. Inc., Chicago, Ill.; Charles Plohn & Co., New York, N. Y., and Clayton Securities Corp., Boston, Mass.

Toledo Edison Co.
Jan. 20 it was reported company plans to issue and sell about $15,000,000 of first mortgage bonds in April or May of this year. **Proceeds**—To repay bank loans. **Underwriter**—If issue is not placed privately, underwriter may be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Eastman Dillon, Union Securities & Co.; and Salomon Bros. & Hutzler (jointly); Carl M. Loeb, Rhoades & Co.; The First Boston Corp.; White, Weld & Co.

Tuttle Engineering, Inc., Arcadia, Calif.
Feb. 10, Leo L. Strecker, President, announced corporation plans issue and sale in near future of $1,000,000 convertible debentures or preferred stock, to be followed later in 1958 by the sale of about $5,000,000 of common stock. **Proceeds**—For working capital and other corporate purposes.

United Gas Improvement Co. (5/13)
Jan. 28 it was reported company plans to issue and sell $15,000,000 of first mortgage bonds. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Kidder, Peabody & Co.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Smith and Eastman Dillon, Union Securities & Co. (jointly). **Bids**—Expected to be received on May 13. **Registration**—About April 11.

Virginia Electric & Power Co. (6/10)
Dec. 26 it was reported company plans to issue and sell $25,000,000 bonds or debentures. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Salomon Bros. & Hutzler; White, Weld & Co.; Eastman Dillon, Union Securities & Co.; Stone & Webster Securities Corp.; Kuhn, Loeb & Co. and American Securities Corp. (jointly). **Bids**—Tentatively expected to be received on June 10.

Virginia & Southwestern Ry. (3/6)
Company plans to sell $5,000,000 bonds. **Proceeds**—To redeem similar amount due April 1, 1958. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Salomon Bros. & Hutzler; Eastman Dillon, Union Securities & Co.; Kidder, Peabody & Co., and White Weld & Co. (jointly). **Bids**—To be received up to noon (EST) on March 6 at Room 2018, 70 Pine St., New York 5, N. Y.

Washington Natural Gas Co.
Oct. 18 the directors authorized the sale of $5,000,000 in debentures. **Proceeds**—For expansion program. **Underwriter**—Blyth & Co., Inc., San Francisco and New York.

Our Reporter's Report

With the backing up of new issues threatening to immobilize substantial blocks of underwriting capital, investment bankers moved this week to do something about breaking up the log-jam.

And the only sensible thing they could do was to turn loose some of the recently purchased issues that have been stumbling along and piling up in inventories because of a veritable "strike" on the part of major investment interests against yields offered.

Ever since the Federal Reserve threw the switch in the money market several months ago, bankers have been up to their old habit of bidding their heads off for new issues. A consequence was that the market drove ahead too rapidly and presumably over-discounted what had happened.

At any rate prospective buyers, knowing syndicate commitments have been heavy and that substantial new offerings are ahead, just decided to sit back and wait out the situation. That is exactly what they have been doing and evidently with considerable degree of success.

On issues that have been turned loose there has been a downward price adjustment of as much as three points, or the equivalent of 15 to 20 basis points in yield offered. This has carried the prospective return comfortably above the 4% level with Pennsylvania Electric Co. 4⅞s, recently brought out at 100.874 to yield 3.95%, backing off to 97⅝ bid to make the indicated yield around 4.15%.

Changing Pattern

Bankers were evidently disposed to attempt a bit more in the way of calculation in bidding for new issues this week in search of ideas that would jibe more with those of their potential customers.

In the case of Ohio Edison Co.'s $40 million of first mortgage, 30-year bonds, for example, there was a considerable spreading of bids and even a split in ideas on the coupon rate.

The successful group paid the issuer a price of 100.856 for a 4¼% interest rate. This was more than $7 per bond above the runner-up. Two other firms named a 4⅜% coupon rate.

Olin, Mathieson Chemical

Market observers are looking for a good speedy operation in connection with today's offering of $40 million Olin Mathieson Chemical Corp. convertible debentures. Bearing 5½% interest and priced at par, all indications were that the issue would prove attractive to investors.

Here, of course, the element of competitive bidding was out of the way and bankers and the company negotiated on what they considered a fair price to both the seller and the buyer.

Keep Pot Boiling

Underwriters, who have been having their share of troubles with recently purchased merchandise, will have a chance to try their hands regularly through the approaching week. The Calendar discloses a total of around $147 million of new issues awaiting the call.

The biggest of these is Sylvania Electric Products Inc.'s $40 million of debentures slated for marketing on Tuesday. The week starts with Merrimac-Essex Electric Co. scheduled to open bids for $20 million of bonds on Monday.

On Wednesday, Chicago, Rock Island & Pacific Railroad will market $16 million of bonds and Cincinnati Gas & Electric will take bids for $13 million of preferred stock.

General Telephone Corp. of California offers $20 million bonds for bids, and Mississippi River Fuel Corp., will put $30 million of debentures on the market, through bankers, on the same day.

A. McClure Russ

A. McClure Russ, President of Russ & Co., Inc., San Antonio, Texas, passed away on Feb. 23.

Public Utility Securities

By OWEN ELY

Oklahoma Natural Gas Company

Oklahoma Natural Gas, with a 52-year history, serves about half the population of Oklahoma directly or indirectly. It is an integrated gas utility, producing gas and transporting, storing and distributing it through some 7,300 miles of pipeline. It serves 355,800 customers in 142 communities with an estimated population of 1,133,000. It also serves some 42 communities at wholesale.

The economy of Oklahoma is about one-third oil, one-third farming and one-third industry. It is the fourth largest oil producing state, with a large number of well-known companies located in Tulsa. To serve the oil industry, such firms as Bethlehem Supply, Jones & Laughlin Supply, Dresser, Rockwell, and many others have established branches in Oklahoma. The state has been trying to develop and diversify its industrial business and to capitalize on its large supplies of industrial water and large deposits of salt, coal, dolamite and glass sands, lead, zinc and related rate metals. As evidence of the success of the campaign Collery Chemical, a division of Mine Safety Appliances, is building a $38 million plant in our area to make a new type of Boron fuel. Western Electric has announced plans to build a large new plant in Oklahoma City. American Airlines is expanding its Tulsa operation by building a $20 million jet maintenance and overhaul base to be ready in 1959. In Tulsa, Douglas Aircraft is the largest employer, and a new and popular executive airplane, the Aero Commander, is being built in Oklahoma City.

The company has enjoyed good growth with revenue more than doubling in the past decade. New customers have been acquired at the rate of about 10,000 a year. Sales of natural gas are about 55% residential, 15% commercial, 27% industrial and 3% miscellaneous. Total revenues of $44 million include about $5 million from oil sales, gasoline plant product sales, etc. The company considers that its low gas rates have helped to draw industrial customers to the state. Among its 2,300 industrial customers are such well-known concerns as Deere & Company, Midwest Carbide, National Gypsum, Certain-teed Products, Fansteel Metallurgical, Sylvania, and many of the major glass manufacturers.

The company is developing its air conditioning load since this will help to fill in the summer "valley." At company rates gas air conditioning operates for about 40% less than the operating cost of competitive air conditioning. The company has a total of 37,000 tons of gas air conditioning on its lines and the tempo of sales will increase as more manufacturers enter the field with new gas equipment.

While the company produces oil and gas, some of its gas production is in fields which are not adjacent to the service areas. The company obtains about three-quarters of its supply from 120 separate oil and gas fields throughout the state, producing one-quarter itself. About one-eighth of its requirements are obtained from Phillips Petroleum, and the list of suppliers includes a number of other well-known oil companies. Gas produced with oil and processed in gasoline plants makes up about 85% of sales and is likely to remain the principal source of supply. The company's controlled reserves are 11½ times annual requirements, compared with 6 times annual requirements in 1948. The future of the company's gas supply is considered very good.

The company has been successful in the past several years in contracting for new supplies in a highly competitive market, and is currently purchasing most of its gas requirements at a price of 11c per mcf. Almost all the gas purchased in the last year was under contracts having a primary term of 20 years or longer; they provide escalation in price to 12c in December, 1962, and to 13c in December, 1967. The company has an interest in 187 producing oil wells with proven reserves estimated at 2,206,000 barrels. Its net interest in proven gas reserves is about 69 billion cubic feet, in the Panhandle and adjoining areas of northwestern Oklahoma, which have undergone rapid development in the past two years. In the entire state they total about 113 billion cf. At the present time, the company owns approximately 174,000 acres of undeveloped oil and gas leases in the state.

The company operates four underground gas storages with a combined capacity of approximately 157 billion cubic feet of gas, and capable of delivering in excess of 500 million cubic feet of gas per day. Last year these storages supplied 53% of peak day requirements.

The company is planning for continued rapid expansion and is projecting the expenditure of $52 million during the next five years for construction, or about the same annual rate as in the past decade. The cash budget for this period indicates the need for about $15 million of permanent financing which will probably include $5 million preferred stock and $10 million 1st mortgage bonds. The company does not expect to sell any common stock during the next five years. The equity ratio as of Aug. 31, 1957 was 32%.

The company filed an application for a rate increase of $6.5 million on Aug. 27, 1957, of which $4.3 million was received effective Jan. 1, 1958. The company had requested a rate of return of 7.2% and received 6.25%.

The stock has been selling recently around 27½ and based on the $1.50 dividend rate yields about 5.5%. The share earnings record has been somewhat irregular but has shown improvement in recent years. $2.80 was earned in fiscal 1955 with a decline to $1.86 in the year ended Aug. 31, 1957. The company then applied for the above rate increase and earnings for fiscal 1958 are estimated at about $2.20 a share by the management, including only eight months of the rate increase.

Ohio Co. Adds

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—William E. Durrant is now affiliated with The Ohio Company, 51 North High Street.

With McMaster Hutchinson

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—Elmer H. Engel has become connected with McMaster Hutchinson & Co., First Wisconsin National Bank Building. He was formerly with Bache & Co.

Joins Geo. C. Lane

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—Edward T. Myborg has been added to the staff of George C. Lane & Co., Inc., 70 College Street.

Joins Westheimer

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O.—Mrs. Allene J. Branch has joined the staff of Westheimer and Company, 322 Walnut Street, members of the Cincinnati Stock Exchange.

Mutual Funds

By ROBERT R. RICH

Lower Business Level May Be Prolonged

Business may continue on a lower plateau for more than seven months after the current decline terminates, a New York investment company executive told the Cleveland Society of Security Analysts on March 4.

This estimate was made to the analysts by Thurston P. Blodgett, Vice-President of Tri-Continental Corporation, the nation's largest diversified closed-end investment company.

Foreseeing the decline and recovery as being somewhat more prolonged than the seemingly similar 1953-54 decline, Mr. Blodgett said that "since business in the 1953-54 period required seven months of stabilization after the sharp decline before it turned up, we probably can expect business activity to remain on a lower level at least as long or probably longer after the current decline terminates, which it has not yet done."

Turning to the stock market, the Wall Street executive noted that "if business is unlikely to experience a decline on the order of 1929 or 1937, much of the broad general decline in stock market prices probably already has taken place."

"However," he added, "if business stabilizes at a lower level for a considerable period, the impact on individual industries and companies, particularly in relation to profits, will be most diverse. There should be excellent opportunities for careful selection of individual issues during the year ahead, as indeed there have been in the past year."

Mr. Blodgett described to the analysts the individual nature of Tri-Continental Corporation as "the only investment company of size which has bonds and preferred stock outstanding as a permanent part of its capital structure" and which can employ this senior capital for the benefit of the common stock.

The Tri-Continental management, he added, believes "there is a real place among investment companies for one which, as a matter of long-term policy, believes in the moderate use of senior capital and it has every intention of maintaining a senior capitalization in the future."

Mr. Blodgett went on to point out that "because senior securities are a permanent element in the capital structure, it does not necessarily follow that the common stock is in a continuously leveraged position."

The investment manager noted that, at present, "there is no leverage on the common stock" with the common stock equity invested approximately 93% in common stocks, and "in its present position Tri-Continental has considerable flexibility should circumstances arise that justified increasing common stock investments."

Mr. Blodgett discussed the heavy exercise of warrants and sales of new common stock of Tri-Continental by arbitrageurs during the past two years. He went on to point out that with the number of outstanding warrants reduced substantially it seems probable that, looking ahead, the warrants will have less influence on the common stock than in the past.

Boston Fund's Share Value Up In Year Despite Market Decline

The annual report of Boston Fund received by shareholders this week reveals that shares of the fund increased in value during the fiscal year ended Jan. 31, 1958, while the stock market was registering a sizable net decline.

In his letter to shareholders, Henry T. Vance, President of the 26-year-old Boston mutual fund, reports that the fund's net asset value per share increased from $15.25 a year ago to $15.40 at the fiscal year end, after adjusting for a capital gains distribution of 89 cents per share paid from net profits realized during the year.

Total dividends per share from net investment income for the year also were up — amounting to 52 cents per share as compared with 48 cents for the previous year. "For those shareholders who accepted payment of last year's capital gains distribution in additional shares, this represents an increase in dividends received of more than 14%," Mr. Vance said.

During the same period, he noted, common stock prices in general, as measured by the Dow Jones Industrial Stock Average, declined from 479 to 450.

Mr. Vance attributes these gains to changes in the fund's portfolio in which:

(1) Common stock holdings were reduced by some $24 million during a two-year selling program prior to last fall's market decline, and at substantially higher price levels than now prevail.

(2) Over $6.5 million of additional equities were exchanged for others "which appeared to be more realistically priced in view of the unfolding business picture."

(3) For the most part, the money received from the net sale of equities was first placed in short-term obligations or attractive convertible issues.

(4) During the first three quarters of 1957, these were replaced by longer-term bonds and preferred issues, which were available at substantially lower prices and better yields owing to action taken by the Federal Reserve Banks to curb prevailing inflationary tendencies.

"In the last quarter, however," he explained, "interest rate policies were sharply reversed with the result that our bond and preferred stock holdings showed substantial price increases, and thus were an important factor in the performance of the fund during the year."

Mr. Vance also reported these other significant gains for the fund during the year: Total net assets increased to $142,125,781, a new year-end high. Shares outstanding rose to 9,793,886, and the number of shareholders to 29,238, both representing new peaks.

Canadian Fund Assets Now $38 Million

Total net assets of Canadian Fund, Inc. at Jan. 31, 1958 were $37,909,026, consisting of stocks of 43 Canadian corporations, plus Canadian Government and corporate bonds and cash, according to a report accompanying the first quarterly dividend for the 1958 fiscal year. The dividend, which is at the rate of 10 cents per share, is the 22nd payment from net investment income since the fund was incorporated in 1952.

During the three months ended Jan. 31, 1958, Hugh Bullock, President of the fund, told shareholders in the report, substantial revisions in the fund's investments were made, including increased amounts invested in stocks of 12 corporations and the reduction of investments in six other stocks. The Canadian economy, he said, is undergoing readjustment similar to that of the United States and other Free-World countries, but over the longer term, based on her abundance of important natural resources and her key role in the economy of the democratic nations, the outlook for Canada is bright.

Canadian Fund, Inc., Mr. Bullock pointed out, was not only the first mutual fund to be formed for the purpose of enabling U. S. investors to obtain a diversified investment in Canadian industry under experienced management, but also, it is the only one of the several formed after World War II which pays quarterly dividends to its shareholders and distributes to its shareholders annually any net profits which may be realized. The shareholder has the option of receiving such distributions in cash, or in additional shares of stock.

Affiliated Share Value Up 6% In Three Months

Despite the fact that on the average about 14% of its assets were held in cash and short-term Government bonds, the value of the shares of Affiliated Fund, Inc. advanced 6½% in the three months ended Jan. 31, 1958, an advance greater than that experienced by the stock market in general, as measured by well known indices, most of which advanced from 1% to 3%.

At the end of January 1958, net assets of the Affiliated Fund were $369,464,195, equivalent to $5.65 a share. This per share value together with a 20c capital gains distribution paid in December, is equivalent to $5.85 a share as compared with the Oct. 31, 1957 value of $5.49.

"The good result in a rising market," H. I. Prankard 2nd, President, informs stockholders, "coupled with the relatively small decline of our shares in last year's falling market, seems to demonstrate that the interest of investors has continued to shift toward the type of stocks we own."

Common stocks owned by Affiliated Fund on Jan. 31, 1958 were divided as follows: service industries 30.48%, producers of non-durable goods 29.92%; producers of fuel and raw material 14.83%; producers of durable goods 9.04%; and cash and Government bonds 15.83%. Additions to the portfolio during the three-month period were Fibreboard Paper Products Corp.; H. J. Heinz Co. and McGraw-Hill Publishing Co., Inc.

Eliminations were: American Natural Gas Co., General Foods Corp., Marathon Corp. (merger-American Can Co.), New England Electric System, New York State Electric & Gas Corp., and Westinghouse Electric Corp.

Electronics Growth To Continue for Three Decades

"The long term growth pattern of the dynamic electronics industry will continue for several decades at least," says Distributors Group, Inc., management firm for Group Securities, Inc.

In support of this view it cites four potential sources of future growth.

"One stems from the increasing need for automation equipment. Because of the smaller than normal working force relative to our growing population, resulting from the low birth rate in the 1930's, there should be an added impetus given to automation within the next decade. In addition, the need to offset the trend of rising labor and raw material costs by increasing each worker's productivity will further stimulate electronic cost-cutting. The extensive use of electrical systems for guided missiles and other military and civilian purposes is still another growth area for automation techniques.

"A second source of potential growth is in the development of nuclear power facilities for the peace-time use of the atom, the full potential of which is yet uncharted.

"The heavy emphasis placed on electronics research likewise enhances the outlook. Research in this industry is believed to exceed that in any other sector of the American economy, and has consistently obtained great rewards through new products and improved techniques.

"A fourth source of growth is derived from the expanding needs of our vast utility systems for generating and distributing equipment to meet the increasing demands from industrial and residential consumers. The outlook for this phase of the industry appears excellent for many years to come."

A summary of these views, together with specific investment data, is available in new descriptive literature on Electronics & Electrical Equipment Shares of Group Securities, Inc. Copies of the new folder may be obtained from Distributors Group, Incorporated, 63 Wall Street, New York 5, New York.

Incorporated Income Assets At New High

Net assets of Incorporated Income Fund, three and one-quarter years since the start of the Fund, reached a new height of $80,103,905 on Jan. 31, the 13th quarterly report reveals.

During the past 12 months ended Jan. 31, 1958, the number of shares outstanding rose from 6,641,742 to 10,727,590, an increase of over 60%.

Continued from page 8

Will Credit-Ease Cushion The Business Downturn?

and that numerous new products and new types of cost-reducing capital equipment could be introduced at a profit.

Thus to maintain the desire to spend at a high level requires a continually high rate of introduction of new products and new types of capital equipment. In addition, the economy's productive resources would have to be fully employed at all times in order to maintain a high *ability* to spend. This would require rapid transfer of resources from one use to another so that temporary unemployment would be held to a bare minimum.

Merely to describe these necessary conditions is sufficient to show the impossibility of continued high-level spending. A capitalist economic system cannot be expected to operate continually at overload capacity. It probably is necessary that varying amounts of resources be unemployed in an economic system without central planning. The basic cause of business downturns is not an inadequate desire to acquire more consumer goods and capital goods but the inability of an unplanned economic system to introduce new types of goods with sufficient regularity and in such great number that consumers and businessmen always feel inadequately stocked with goods and equipment.

Large parts of a higher level of consumption and a greater capacity to produce must take the form of new types of consumer and capital goods rather than greater amounts of the old types of goods. The consumer's desire to spend is definitely limited in terms of old goods, and he may show some reluctance to buy new and unfamiliar goods and services. But if properly stimulated by advertising and selling efforts, the desire to acquire new types of goods and services is apparently without limit. In order to maintain consumer spending at a high level, the economic system must quickly and continually develop new goods, change consumer's opinions and tastes, and reallocate resources from production of old goods to new goods.

The introduction of new goods does not occur at a constant rate in an unplanned economic system nor is the reallocation of resources accomplished without more than temporary unemployment. Thus some amount of fluctuation in total spending, production and employment is normal in an unplanned economy. These fluctuations are necessary and desirable in the sense that their complete elimination would most likely require a high degree of government planning of production and regimentation of business.

However, these necessary and desirable fluctuations tend to be aggravated and to become *excessive* through the familiar cumulative process involving expansion and contraction of bank credit, changes in consumer and business expectations, and changes in the relationship between prices and costs. These excessive fluctuations are undesirable and could be eliminated or greatly reduced without also eliminating the many desirable features of the unplanned, free-enterprise type of economy, *provided* the supply of bank credit is managed intelligently.

The Role of Monetary Controls

The effectiveness of monetary controls in reducing economic fluctuations lies mainly in their ability to restrain the economy so that the necessary and desirable fluctuations in an unplanned economy do not become the excessive and undesirable fluctuations usually referred to as business booms and depressions. Many characteristics of business booms and depressions are opposites, e. g., changes in the quantity of bank credit, the state of consumer and business expectations, the level of total spending and employment, and the relationship between prices and costs. This fact suggests that booms and depressions not only are two manifestations of the same basic phenomena but also that the same remedy would be effective in eliminating both. Depressions could be avoided if booms were prevented, and booms could be prevented if the expansion of bank credit were not allowed to become excessive.

This solution would not appeal to those people who regard boom conditions as the normal and desired level of economic activity in a healthy economy and the ideal toward which government stabilization policy should strive in an unhealthy economy. But the logic and potential effectiveness of monetary controls becomes apparent once it is recognized that the normal state of economic activity in an unplanned or free-enterprise type of economy is fluctuation around a level of below full employment rather than stabilization at full employment.

It would be incorrect to claim that the prosperity or expansionary phase of the business cycle turns into boom and later ends in depression solely because of excessive expansion of bank credit. But for purposes of preventing booms and depressions, bank credit expansion is the crucial factor; the boom could hardly occur without it. The characteristic of both booms and depressions which can best be managed or controlled is the expansion and contraction of bank credit.

It is well known that an initial increase in spending will cause further increases in spending because of the new incomes thus generated, and more important, because of greater business profits and improved expectations of future sales and profits. If these increases in spending were financed solely by a faster circulation of the existing money supply, it is unlikely that the upturn in spending would become excessive and turn into a business boom because there are natural or physical limits to the speed at which money can circulate.

But when the increases in spending are financed by expansion of bank credit, there are fewer natural or physical limits to the cumulative upturn in spending. Not only may each dollar of new money be spent several times during a year, but additional expansion of bank credit may be encouraged. Whenever a strong desire to spend is combined with relaxed control over the expansion of bank credit, it is almost inevitable that the resulting cumulative upturn in spending will become excessive and end finally in a business depression.

Some writers have pictured the boom ending in depression because bank credit eventually reaches the limits of expansion; once the banks have reached their lending limits and the circulation of money has reached its practical maximum, spending levels off, profits are reduced, expectations fail to be fulfilled, and a depression follows. Other writers have observed that booms typically end and depressions begin while banks still possess lending ability. This suggests that the boom comes to and end because of real or non-monetary causes, the most likely of which is temporary exhaustion of the ability to introduce new goods and of the desire to spend resulting from overexertion.

Exaggerated Swings

The exaggerated expectations and excessive spending characteristic of a business boom cause the purchase of many consumer and capital goods and the introduction of many new products and cost-reducing types of capital equipment which otherwise would have been postponed to a later time. Acting under the artificial stimulus of excessive bank credit expansion, the rate of economic activity becomes greatly accelerated. It might seem that such a high rate could be maintained so long as bank credit could continue to be expanded. But consumers' willingness to acquire new goods and services and producers' ability to develop and introduce new types of consumer goods and capital equipment is soon exhausted from overexertion. Our economy has a tremendous capacity for developing new products, and consumers have shown great willingness to adjust their habits of consumption to buy these goods and services. But no matter how great the ability, it can be dissipated by excessive activity.

Easing of credit controls could hardly be expected to stimulate spending after a long period of exaggerated economic activity caused by the artificial stimulus of excessive bank credit expansion. The belief that lower rates of interest and easier bank lending policies will not encourage borrowing and that additional demand deposits and bank reserves created by Federal Reserve open-market purchases will merely lie idle seems to be based on observations of previous business downturns when the desire to spend had largely been dissipated by overexertion. In such cases, profitable uses of borrowed funds were largely non-existent, and increased spending was not encouraged by credit-ease.

But if the rate of economic activity had previously been restrained by control over bank credit expansion, much of the purchasing of consumer and capital goods and the introduction of new goods which otherwise would have occurred during a business boom would be postponed or spread oved a longer period of time. These postponed expenditures could then be called forth by an easing of credit restraints. In so far as the basically strong desire to spend is not dissipated in an orgy of spending credit expansion, consumers and businesses would be less likely to become overstocked with familiar goods, businesses would be better able to develop and introduce new goods, resources could be reallocated without undue stress on price and cost relationships and with a minimum of temporary unemployment, and consumers would have sufficient time to adjust their habits and tastes for the new goods. Thus a reasonably high average level of employment could be maintained and fluctuations could be greatly reduced by proper management of the supply of bank credit.

Conclusion

This analysis of the effectiveness of monetary controls should not be interpreted as implying that all fluctuations in economic activity could be or should be eliminated. Some degree of economic fluctuation is a normal part of the process of growth and change in an unplanned, free-enterprise economy. These fluctuations are not caused by expansion and contraction of bank credit but are the process by which new products and methods are introduced, old products and methods are eliminated, and resources are reallocated.

However, *excessive* fluctuations are unnecessary and undesirable, and they could be eliminated or greatly reduced by proper control over bank credit expansion. By keeping the economy on a leash, so to speak, it can be prevented from over-expanding and thus temporarily exhausting itself. Some of its capacity for introducing new consumer goods and services and new capital equipment can thereby be held in reserve to be called into action when needed. Then an easing of credit restraints would be effective in stimulating a desire to spend which previously had been restrained. In this manner, the trough of the business cycle coud be filled in with the excessive economic activity which otherwise would have occurred during a business boom.

A considerable amount of success can be expected from credit-ease at the present time because of the basic tendency for our economy to be healthy and vigorous rather than old, tired, and sick and because of the previous policy of credit restriction. Some specific examples of the types of expenditures which have been delayed by the tight money policy and which may now be called forth by an easing of credit restrictions are private housing, state and local government projects such as schools, other public buildings, highways, etc., and plant expansion by small and new businesses.

When wise monetary management is combined with such stabilizing devices as unemployment compensation benefits and taxes, personal and corporate income taxes with their widely-fluctuating yields, and the Federal Government's ability to speed-up or slow-down its rate of spending and to relocate some of its spending to depressed areas of the economy without increasing the size of its budget, the prospects for minimizing economic fluctuations without incurring huge government deficits appears even more promising.

Starting with a Dollar and Becoming a Millionaire

By ROGER W. BABSON

Some wise man said that when anyone steals our **money**, we have a chance to get it back; but when anyone steals our **time**, we can never replace it. This is true whether it refers simply to being late to appointments, or whether it concerns strikes, idleness, or not working efficiently.

Roger W. Babson

However, this week I will write of an entirely different use of TIME—namely, in connection with increasing the value of our investments. In fact, time and patience have been the making of most large fortunes. Of course, one must use intelligence and diversification, but the truly important requirement is TIME.

Most readers know that if they should promise to pay some person one cent the first day, and two cents the second day, and four cents the third day, and eight cents the fourth day, and so on, doubling each day for a month, the result would be fantastic. For the 31st day of the month, they would have to pay the person about $10,000,000! This is the way most large family fortunes have been created, by TIME.

How to Become a Millionaire

If you substitute years for days, start with one dollar instead of a penny, and double the amount of your investment only once each year, you could have over $100,000,000 at the end of 31 years—after taxes, losses, trust and other fees. Certainly, with proper advice you can select each year—except in bear markets — some stock selling at one or two dollars a share which is almost certain to double within one year. Please note carefully that I do not say you can expect this same stock to double every following year.

This means that when this cheap stock doubles in value, your broker need only sell this stock and reinvest the money in some other cheap stock which will probably double in one year. I am not counting dividends in the above calculations because the stocks which are selected will be cheap non-dividend-paying stocks. But this also means you will have no income taxes to pay—only the Federal and State "profits" or "intangible" taxes, according to where you live.

The Fly in the Ointment?

You say that there must be some trick in this story of mine. There may be; it probably is that making these millions from **one dollar** in 31 years without borrowing a penny may depend upon not too many brokers recommending the same stock. Also, there could be difficulty in either obtaining or selling such a large number of shares.

However, remember that the above illustration is based upon starting with only one dollar. As a practical matter, most every reader should be able to start the fund with $5,000 dollars, and then use the latter amount as a Reserve for errors. This Reserve would be invested more conservatively in accordance with the Babson Program supplemented by the Dewey Law of Cycles.

The True Secret of Getting the Million

I repeat, there should be no fear about being unable to select one stock which should double the first year. Moreover, the other mathematical or investment conditions can probably be met in every case. The real reason why this almost unbelievable result has not been obtained, except by a few investors, is because very, very few persons have the patience and persistence to carry out the program for 31 years.

Brokers, bankers and all your friends will advise quitting this speculative program after the sum reaches $100,000, to diversify in the "blue chips, and to get an income." Ninety-five investors out of 100 will fall by the wayside and do it. This makes it possible for the other 5% who realize the value of TIME and stick to the 31 years to reach the goal. (Go back and read again my penny illustration. This shows that the real gain comes in the last eight years.)

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C. — James W. Brown, Jr. and Donald E. Walston have joined the staff of Merrill Lynch, Pierce, Fenner & Smith, 324 South Salisbury Street.

Rejoins Perry Blaine

(Special to THE FINANCIAL CHRONICLE)

ASHTABULA, Ohio — Ezra H. Garlick has rejoined Perry T. Blaine & Co., 4519 Main Avenue. Mr. Garlick has recently been with Ross, Borton & Co., Inc.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (per cent capacity)	Mar. 9	§52.6	*54.6	53.9	94.2
Equivalent to—					
Steel ingots and castings (net tons)	Mar. 9	§1,419,000	*1,475,000	1,457,000	2,411,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Feb. 21	6,807,635	6,851,985	6,923,185	7,567,315
Crude runs to stills—daily average (bbls.)	Feb. 21	¶7,506,000	7,520,000	7,639,000	7,795,000
Gasoline output (bbls.)	Feb. 21	25,937,000	26,559,000	26,449,000	25,673,000
Kerosene output (bbls.)	Feb. 21	2,366,000	2,619,000	2,397,000	2,318,000
Distillate fuel oil output (bbls.)	Feb. 21	12,008,000	11,961,000	12,543,000	13,858,000
Residual fuel oil output (bbls.)	Feb. 21	7,769,000	7,615,000	7,424,000	8,651,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 21	213,659,000	210,560,000	203,256,000	204,122,000
Kerosene (bbls.) at	Feb. 21	18,596,000	20,487,000	24,051,000	21,723,000
Distillate fuel oil (bbls.) at	Feb. 21	96,668,000	108,417,000	128,181,000	87,738,000
Residual fuel oil (bbls.) at	Feb. 21	55,435,000	57,134,000	57,810,000	35,772,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 22	492,389	533,237	550,667	626,630
Revenue freight received from connections (no. of cars)	Feb. 22	480,628	510,999	539,681	613,589
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Feb. 27	$304,665,000	$388,506,000	$389,731,000	$321,197,000
Private construction	Feb. 27	128,238,000	204,191,000	139,953,000	198,027,000
Public construction	Feb. 27	176,427,000	134,315,000	249,778,000	123,170,000
State and municipal	Feb. 27	132,177,000	96,966,000	215,618,000	75,598,000
Federal	Feb. 27	44,250,000	37,349,000	33,960,000	47,572,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 22	6,790,000	7,965,000	8,285,000	9,850,000
Pennsylvania anthracite (tons)	Feb. 22	427,000	379,000	537,000	549,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Feb. 22	82	96	93	100
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 1	11,803,000	12,338,000	12,238,000	11,791,000
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Feb. 27	331	317	326	284
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 25	5.967c	5.967c	5.967c	5.663c
Pig iron (per gross ton)	Feb. 25	$66.49	$66.42	$66.42	$62.90
Scrap steel (per gross ton)	Feb. 25	$37.33	$37.33	$35.00	$52.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 26	24.375c	24.450c	24.575c	31.275c
Export refinery at	Feb. 26	19.725c	19.825c	20.400c	29.475c
Lead (New York) at	Feb. 26	13.000c	13.000c	13.000c	16.000c
Lead (St. Louis) at	Feb. 26	12.800c	12.800c	12.800c	15.800c
‡Zinc (delivered) at	Feb. 26	10.500c	10.500c	10.500c	14.000c
Zinc (East St. Louis) at	Feb. 26	10.000c	10.000c	10.000c	13.500c
Aluminum (primary pig. 99%) at	Feb. 26	26.000c	26.000c	26.000c	25.000c
Straits tin (New York) at	Feb. 26	94.500c	94.375c	93.125c	98.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 4	94.40	94.52	93.86	90.88
Average corporate	Mar. 4	95.62	96.07	95.77	96.54
Aaa	Mar. 4	102.30	102.63	102.63	101.47
Aa	Mar. 4	99.84	100.00	99.36	99.36
A	Mar. 4	94.86	95.92	96.23	96.38
Baa	Mar. 4	86.78	86.78	86.24	89.37
Railroad Group	Mar. 4	91.77	91.77	91.62	95.47
Public Utilities Group	Mar. 4	97.00	98.09	97.94	96.69
Industrials Group	Mar. 4	98.25	98.41	98.09	97.31
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 4	2.98	2.97	3.02	3.26
Average corporate	Mar. 4	4.03	4.00	4.02	3.97
Aaa	Mar. 4	3.61	3.59	3.59	3.66
Aa	Mar. 4	3.76	3.75	3.79	3.79
A	Mar. 4	4.08	4.01	3.99	3.98
Baa	Mar. 4	4.65	4.65	4.69	4.46
Railroad Group	Mar. 4	4.29	4.29	4.30	4.04
Public Utilities Group	Mar. 4	3.94	3.87	3.88	3.96
Industrials Group	Mar. 4	3.86	3.85	3.87	3.92
MOODY'S COMMODITY INDEX	Mar. 4	396.9	396.6	393.0	412.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 22	230,020	238,539	236,717	245,909
Production (tons)	Feb. 22	272,590	259,233	266,581	262,293
Percentage of activity	Feb. 22	89	86	87	93
Unfilled orders (tons) at end of period	Feb. 22	330,479	373,522	348,266	370,885
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Feb. 28	109.33	109.19	108.49	110.99
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Feb. 8	1,485,200	1,327,890	1,457,630	1,357,660
Short sales	Feb. 8	324,310	268,750	338,500	206,230
Other sales	Feb. 8	1,227,380	1,058,890	1,478,550	1,170,130
Total sales	Feb. 8	1,551,690	1,327,640	1,817,050	1,376,360
Other transactions initiated on the floor—					
Total purchases	Feb. 8	380,420	346,640	324,610	215,330
Short sales	Feb. 8	44,000	29,520	57,900	24,700
Other sales	Feb. 8	390,820	349,720	380,510	289,600
Total sales	Feb. 8	434,820	379,240	438,410	314,300
Other transactions initiated off the floor—					
Total purchases	Feb. 8	541,977	435,037	524,969	425,185
Short sales	Feb. 8	143,760	130,620	174,570	120,500
Other sales	Feb. 8	632,872	637,415	528,602	461,781
Total sales	Feb. 8	776,632	768,035	703,172	582,281
Total round-lot transactions for account of members—					
Total purchases	Feb. 8	2,407,597	2,109,567	2,307,209	1,998,175
Short sales	Feb. 8	512,070	428,890	570,970	351,430
Other sales	Feb. 8	2,251,072	2,046,025	2,387,662	1,921,511
Total sales	Feb. 8	2,763,142	2,474,915	2,958,632	2,272,941
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—†					
Number of shares	Feb. 8	1,336,171	1,128,809	1,485,834	1,375,914
Dollar value	Feb. 8	$57,892,492	$49,083,683	$60,550,994	$63,114,186
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Feb. 8	1,013,055	879,804	904,425	1,051,288
Customers' short sales	Feb. 8	20,961	19,496	24,745	10,010
Customers' other sales	Feb. 8	992,094	860,308	879,680	1,041,278
Dollar value	Feb. 8	$45,785,039	$37,945,510	$38,727,811	$50,702,912
Round-lot sales by dealers—					
Number of shares—Total sales	Feb. 8	233,770	250,160	201,690	255,880
Short sales	Feb. 8	------	------	------	------
Other sales	Feb. 8	233,770	250,160	201,690	255,880
Round-lot purchases by dealers—					
Number of shares	Feb. 8	582,190	504,600	723,910	552,240
TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total round-lot sales—					
Short sales	Feb. 8	903,330	774,230	945,650	536,500
Other sales	Feb. 8	11,922,930	10,684,080	10,738,300	4,311,910
Total sales	Feb. 8	12,826,260	11,458,310	11,683,950	4,848,410
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49=100):					
Commodity Group—					
All commodities	Feb. 25	119.2	119.1	118.7	116.9
Farm products	Feb. 25	97.3	*96.9	94.3	88.3
Processed foods	Feb. 25	109.7	109.5	108.8	102.6
Meats	Feb. 25	103.7	102.7	99.7	80.8
All commodities other than farm and foods	Feb. 25	125.8	125.8	125.9	125.4

*Revised figure. ¶Includes 844,000 barrels of foreign crude runs. §Based on new annual capacity of 140,742,570 tons as of Jan. 1, 1958, as against Jan. 1, 1957 basis of 133,459,150 tons. †Number of orders not reported since introduction of Monthly Investment Plan. ‡Prime Western Zinc sold on delivered basis at centers where freight from East St. Louis exceeds one-half cent a pound.

	Latest Month	Previous Month	Year Ago
BANKERS' DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Jan. 31:			
Imports	$272,821,000	$278,410,000	$290,532,000
Exports	460,866,000	455,531,000	363,231,000
Domestic shipments	11,180,000	10,304,000	13,701,000
Domestic warehouse credits	374,940,000	285,772,000	383,431,000
Dollar exchange	65,040,000	45,674,000	2,349,000
Based on goods stored and shipped between foreign countries	237,280,000	231,688,000	158,257,000
Total	$1,422,127,000	$1,307,379,000	$1,011,501,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of January (in millions):			
Total new construction	$3,285	$3,667	$3,198
Private construction	2,361	2,705	2,324
Residential buildings (nonfarm)	1,116	1,345	1,137
New dwelling units	860	1,005	885
Additions and alterations	207	290	214
Nonhousekeeping	49	50	38
Nonresidential buildings	704	764	722
Industrial	240	248	269
Commercial	267	305	269
Office buildings and warehouses	161	172	143
Stores, restaurants, and garages	106	133	126
Other nonresidential buildings	197	211	184
Religious	68	74	67
Educational	42	44	43
Hospital and institutional	47	48	33
Social and recreational	25	27	24
Miscellaneous	15	18	17
Farm construction	101	100	97
Public utilities	428	483	357
Railroad	31	35	32
Telephone and telegraph	86	86	75
Other public utilities	311	362	250
All other private	12	13	11
Public construction	924	962	874
Residential buildings	58	57	29
Nonresidential buildings	341	342	339
Industrial	30	32	44
Educational	228	226	214
Hospital and institutional	22	24	24
Administrative and service	30	29	30
Other nonresidential buildings	31	31	27
Military facilities	80	88	93
Highways	250	275	225
Sewer and water systems	96	97	100
Sewer	58	61	56
Water	38	36	44
Public service enterprises	26	25	24
Conservation and development	65	71	57
All other public	8	7	7
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of January:			
New England	$20,158,048	$18,203,168	$17,087,185
Middle Atlantic	105,917,664	71,245,427	82,213,541
South Atlantic	46,375,698	28,997,778	40,515,318
East Central	59,189,999	101,237,748	67,022,799
South Central	75,262,050	61,885,117	90,368,169
West Central	16,552,056	20,322,459	16,699,709
Mountain	17,963,027	13,413,382	13,405,693
Pacific	96,913,026	76,675,985	90,055,712
Total United States	$438,331,568	$391,981,064	$417,388,126
New York City	67,583,851	47,061,897	50,783,539
Outside New York City	370,747,717	344,919,167	366,604,587
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of January:			
Manufacturing number	219	208	197
Wholesale number	130	96	91
Retail number	676	514	612
Construction number	176	174	177
Commercial service number	78	88	71
Total number	1,279	1,080	1,148
Manufacturers' liabilities	$24,917,000	$14,985,000	$16,105,000
Wholesale liabilities	5,505,000	5,527,000	5,335,000
Retail liabilities	20,788,000	16,028,000	17,862,000
Construction liabilities	9,868,000	5,713,000	10,672,000
Commercial service liabilities	3,364,000	3,072,000	4,086,000
Total liabilities	$64,442,000	$45,325,000	$54,060,000
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of January	13,080	10,575	13,387
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Jan. 31 (000's omitted)	$654,000	$551,000	$548,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of January:			
Weekly earnings—			
All manufacturing	$81.27	*$82.74	$82.41
Durable goods	87.36	*88.93	89.16
Nondurable goods	73.73	*74.88	72.73
Hours—			
All manufacturing	38.7	*39.4	40.2
Durable goods	39.0	*39.7	40.9
Nondurable goods	38.8	*39.6	40.0
Hourly earnings—			
All manufacturing	$2.10	*$2.10	$2.05
Durable goods	2.24	2.24	2.18
Nondurable goods	1.85	1.84	1.81
NEW YORK STOCK EXCHANGE— As of Jan. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total customers' net debit balances	$2,613,205	$2,549,605	$2,789,211
Credit extended to customers	126,095	67,824	28,560
Cash on hand and in banks in U. S.	328,325	342,060	342,019
Total of customers' free credit balances	936,509	896,064	865,837
Market value of listed shares	204,969,173	195,570,176	211,997,259
Market value of listed bonds	106,779,763	105,071,743	100,950,985
Member borrowings on U. S. Govt. issues	270,630	235,171	83,931
Member borrowings on other collateral	1,665,781	1,949,844	2,091,882
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of November:			
Net railway operating income	$64,243,355	$99,631,473	$87,936,310
Other income	21,109,500	20,788,586	18,893,216
Total income	85,352,855	120,420,059	106,829,526
Miscellaneous deductions from income	4,799,460	5,030,943	3,443,787
Income available for fixed charges	80,553,395	115,389,116	103,385,739
Income after fixed charges	49,539,296	84,192,019	73,321,012
Other deductions	4,345,216	4,372,780	4,777,410
Net income	45,194,080	79,819,239	68,543,602
Depreciation (way & structure & equipment)	48,981,456	49,475,845	46,480,711
Federal income taxes	16,206,385	43,776,442	31,436,533
Dividend appropriations:			
On common stock	68,957,240	21,032,027	82,381,570
On preferred stock	4,899,731	1,287,556	4,535,973
Ratio of income to fixed charges	2.60	3.70	3.44

Two With Weil, Roth

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Robert F. Herbert and Carl Meyer have been added to the staff of The Weil, Roth & Irving Co., Dixie Terminal Building, members of the Cincinnati Stock Exchange.

With Central States

(Special to THE FINANCIAL CHRONICLE)

MANSFIELD, Ohio — John C. Wick has become affiliated with Central States Investment Co., Walpark Building. Mr. Wick has recently been with H. L. Emerson & Co., Inc., of Cleveland.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Donald W. Sampson is now with Merrill Lynch, Pierce, Fenner & Smith, Board of Trade Building.

With Straus, Blosser

CHICAGO, Ill.—Warner A. Rosenthal is now affiliated with Straus, Blosser & McDowell, 39 South La Salle Street. He was previously with A. G. Becker & Co.

With Thompson, McKinnon

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C. — Marcus R. Martin is now affiliated with Thomson & McKinnon, Liberty Life Building.

Joins Link, Gorman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Genevieve E. Henkle has joined the staff of Link, Gorman, Peck & Co., 208 South La Salle Street. She was formerly with Blair & Co., Inc. and the Marshall Company.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is little chance of a tax cut this year as things now stand. A poll of top Congressional leaders reveals that they privately discount as unlikely the possibility that the growing wave of tax cut proposals will jell into extra money in either corporate or consumer pockets. A tax cut could result if the bottom drops out of the economy. They don't expect any such disaster.

Republican and Democratic spokesmen have been sparring vigorously to see who will be able to claim credit for a cut if one becomes necessary. Scores of tax-cutting proposals have been introduced in Congress, and Administration spokesmen from the President down have opened the door slightly to the possibility of a reduction as an anti-recession measure in an emergency.

But most of this talk has been purely political, aimed at convincing constituents that their representatives are fighting hard to cure the recession and help the folks back home.

There are strong political and economic reasons why tax-cutting poses a real problem this year.

The Tax Cut "Dogma"

Political strategists have long considered as almost dogma of political religion that tax cuts in election years produce votes. In the so-called "enlightened scientific age," they are beginning to wonder if it's still true.

This is why. The dogma insists that the tax cut go to individuals (who also vote), and to business only after the voters have been satisfied. But boiled down to essentials, most of the pending tax cut plans would produce no more than $50 to $80 a year for each family, whether accomplished by increasing personal exemptions by $100 or giving a flat 10 percent for each taxpayer.

Under the withholding tax, this would produce only $1.00 to $1.55 a week in extra income for each family. This wouldn't add much to purchasing power—unless a method is devised by granting it in lump sum—but it would pare $2 to $3 billion from federal revenues.

By the time elections roll around next November, this tiny token would be long forgotten by the voters, so the effect would probably be nil. To go further and produce a tax cut with real impact would be almost impossible in view of defense spending needs, Congressional thinking goes.

So, politically, the value of the tax cut is doubtful. (Many Congressional politicians contend that the value of supporting a tax cut is greater than actually giving one of the size which could be afforded.)

Budget Threat

Economically, the effects of such a tax cut might be dangerous. President Eisenhower's precariously-balanced budget (a surplus of $500 million for the fiscal year beginning next July 1) is considered by one Senate Finance Committee source as already being out of kilter by about $2 billion in extra spending. A tax cut would push the government anywhere from $4 to $7 billion in the red, this source estimates.

Congress has already had to raise the Federal debt ceiling by $5 billion, to $280 billion, to permit the government to meet its obligations, and a tax cut would push the debt up further.

There is a general belief around government financial circles that a tax cut, even if it produced no real purchasing power, would add fuel to the inflation now occurring—price inflation in the face of rising unemployment. Unemployment rose 1.1 million to 4.4 million in January, while consumer prices rose six tenths of 1 percent, the biggest rise in over a year.

"Political Suicide"

The only meaningful tax cut, they argue, would be a cut in corporate and business taxes to spur investment, cut manufacturing costs and thus prices (or at least halt the upward drift), and revive lagging capital investment. But politically, this would amount to suicide for either party unless coupled with personal reductions.

Tax cuts could be used to give a psychological lift to consumer confidence should the economic slump continue to get deeper. Other weapons will be stepped up public works programs, particularly on pending projects, and some further increase in defense contracts, these congressional sources say.

Byrd to Fight "Liberals"

Not the least of the road blocks in the way of tax juggling for either economic or political purposes again is a small, soft-spoken powerhouse Senator from Virginia. The decision of Sen. Harry F. Byrd to delay his retirement and seek another term which he's almost certain to get—put the skids under many a liberal tax scheme and brought sighs of relief to many a conservative.

Sen. Byrd, as a Democrat, will retain his tight control of the powerful Senate Finance Committee if re-elected. The Virginia apple-grower has repeatedly in recent years quietly blocked what his conservative bent considers unsound financial, tax, or spending schemes. His placid power in the increasingly liberal Senate (an increasingly liberal Finance Committee membership) would have been seriously weakened had he stuck by his decision to retire. As an active, and undoubtedly successful, candidate, he can again hold the reigns of the keystone Finance Committee.

Balanced Budget Advocate

His decision to run, incidently, was believed based on the turmoil his retirement would have caused in the century-old political organization he heads in his native state, on the pleas of many conservatives out of government, and on the personally bleak prospect of having the Senate committee he ran completely rebuilt by the liberal Sen. Robert S. Kerr, D., Okla., who would have succeeded him as Chairman.

How Sen. Byrd will react should tax cutting legislation pass the House this year will depend, it is believed by Finance Committee insiders, on just how bad economic conditions will appear to be at mid-year, and how big the tax cut will be.

While he's a strong advocate of lower taxes, he is a stronger advocate of balanced budgets and "fiscal responsibility," which he defines as basing lower taxes on lower government expenditures.

Appeal "Memphis" Decision

The havoc the so-called "Memphis decision" created in the gas industry and in gas securities markets on Wall Street may be resolved this year.

In an unusual move, the U. S. Supreme Court invited, and got, a request by the government for a speeded-up hearing on the highly controversial ruling of an appeals court. The appeals court ruled, in effect, that the Federal Power Commission could not accept applications from gas pipelines for rate increases unless all customers of the pipeline had agreed in advance to submit to higher rates if they were approved.

The decision caused chaos in the industry. It outlawed a procedure for rate increase applications the Commission had used for years. It threatened pipelines with having to return to utilities and industrial customers some $224,000,000 in higher rates collected over the years. It stopped planned pipeline expansion cold—bringing as a secondary result an estimated drop in orders for new steel linepipe amounting to a million tons or more.

The financial position of some 35 major pipelines will be "obscured" until the High Court reviews the lower court ruling, the Justice Department says.

Early Supreme Court Decision

The Department has asked for a special hearing April 28 before the Supreme Court. Chances are good they'll get the hearing around the end of April, most observers believe, and that a decision will be handed down by the Court before the end of the spring term.

It may not be a decision favorable to the gas pipelines and the government. If not, the FPC and the gas industry will have to resort to more drawn out steps when considering rate increases, which will, the pipelines say, make it harder for them to recoup the cost increase they face from time to time, and thus seriously reduce earnings and expansion.

[This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.]

BUSINESS BUZZ

"No—It's not his—It's the boss' kid—A real apple polisher this guy!"

Business Man's Bookshelf

Balance of Payments Yearbook, Vol. 8—1950-54—International Monetary Fund, Washington, D. C. (cloth).

Classrooms in the Factories—Harold F. Clark and Harold S. Sloan—New York University Press, 32 Washington Place, New York 3, N. Y.

Commission on Organization of the Executive Branch of the Government (Hoover Commission Reports) — Complete set, including progress report and final report to Congress — Superintendent of Documents, Government Printing Office, Washington 25, D. C.—$8.00.

Commission on Organization of the Executive Branch of the Government — Task Force Reports—Superintendent of Documents, Government Printing Office, Washington, D. C.—$18.15.

Community Transportation—Reprints of seven articles on metropolitan transportation—General Electric Company, Schenectady 5, N. Y.

Economy of the American People—Progress, Problems, Prospects—Gerhard Colm and Theodore Geiger—National Planning Association, 1606 New Hampshire Avenue, N. W., Washington 9, D. C., $2.

Economic Report of the President—Report of the Joint Economic Committee of the Congress of the United States on the January, 1958, Economic Report of the President with Supplemental and Dissenting Views—United States Government Printing Office, Washington, D. C. (paper).

How to Handle Travel & Entertainment Expenses to Assure Tax Deductions—Journal of Taxation, Inc., 147 East 50th Street, New York 22, N. Y. (paper), $2.

Local Government Structure in the United States—Superintendent of Documents, Government Printing Office, Washington 25, D. C., 55c.

Procedure for Soliciting Proxies From Shareholders With Stock in Brokers' Names—American Society of Corporate Secretaries, Association of Stock Exchange Firms, and New York Stock Exchange (paper), American Society of Corporate Secretaries, Inc., 10 Rockefeller Plaza, New York 20, N. Y.

Proposals for Improving the Protection of Private Foreign Investments—Hermann J. Abs—International Institute for Studies in Banking, 119 Coolsingel, Rotterdam, Netherlands (paper).